

# Notes to the Accounts

## 1 Basis of preparation

The accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The accounts have been prepared under the historical cost convention except for certain properties and financial instruments which are stated at fair values, as explained in the significant accounting policies set out in note 2.

In the current year, the Group has adopted all of the new and revised standards, amendments and interpretations issued by the HKICPA that are relevant to the Group's operations and mandatory for annual periods beginning 1 January 2010. The adoption of these new and revised standards, amendments and interpretations has introduced certain changes to terminology in the Group's accounts in 2010 (for example the terms "non-controlling interests" and "non-controlling shareholders" replace "minority interests" and "minority shareholders", respectively) and has also resulted in a change to the Group's accounting policies in respect of classification of land leases, business combinations, and acquisitions and disposals of ownership interests in subsidiaries, associated companies and joint ventures that has affected the amount reported for the current and prior years. In addition, the Group's listed associated company, Husky Energy Inc. ("Husky Energy") announced that its accounting policy for oil and gas properties under the International Financial Reporting Standards ("IFRS") has been changed.

Information on the effect of the adoption of the aforementioned new and revised standards, amendments and interpretations, and the new accounting policies is set out below:

### (a) Classification of leases of land

The amendments to Hong Kong Accounting Standard ("HKAS") 17 "Leases" are effective for the Group with effect from 1 January 2010. Amendments to HKAS 17 require that the classification of leases is based on the extent to which the risks and rewards incidental to ownership of an asset lie with the lessor or the lessee. In particular, the amendments deleted the specific guidance in the standard which previously required that the land element in a lease is normally classified as an operating lease unless title to the land is expected to be passed to the lessee by the end of the lease term. Under the amended HKAS 17, a lease of land is classified as fixed assets if the lease transfers substantially all the risks and rewards incidental to ownership of the leasehold land to the lessee. The amendments to HKAS 17 are required to be applied retrospectively. Comparative information has been restated to reflect this change in accounting policy. The effect of the adoption of this change in accounting policy is a reclassification of certain leasehold land to fixed assets in the statement of financial position.

### (b) Business combinations, and acquisitions and disposals of ownership interests in subsidiaries, associated companies and joint ventures

HKFRS 3 (Revised) "Business combinations" and consequential amendments to HKAS 27 "Consolidated and separate financial statements" are effective for the Group prospectively with effect from 1 January 2010.

HKFRS 3 (Revised) introduces significant changes in the Group's accounting for business combinations. Changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration. These changes impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results. Furthermore, the revised standard changes the accounting for business combinations achieved in stages. Under HKFRS 3 (Revised), the Group's previously held interests in the acquired entity are re-measured to fair value at the date the Group attains control and the resulting gain or loss, if any, is recognised in the income statement, and any comprehensive income recognised in prior periods in relation to the previously held interests is also reclassified to the income statement, as if those interests were directly disposed of. Previously, the resulting gain or loss would have been dealt with as a movement in the revaluation surplus account in reserves, and the amount recognised in other comprehensive income in prior periods in relation to the previously held interests is not reclassified to the income statement. The principle adopted under HKFRS 3 (Revised) in relation to business combinations achieved in stages is applicable to acquisitions of associated and joint venture companies in stages.

HKAS 27 (Revised) requires that an increase or a decrease in ownership interest in a subsidiary that does not result in the Group losing control over the subsidiary is accounted for as a transaction with owners in their capacity as owners and is dealt with in reserves and attributed to the ordinary shareholders of the Company, with no impact to goodwill or income statement. Previously, such transactions impact goodwill and give rise to gains or losses. When control of a subsidiary is lost as a result of a transaction, event or other circumstances, HKAS 27 (Revised) requires that the Group derecognises all assets, liabilities and non-controlling interests at their carrying amounts. Any retained interest in the former subsidiary is recognised at its fair value at the date when the control is lost, with the resulting fair value re-measurement gain or loss being recognised in the income statement. Previously, the retained interest in the former subsidiary is recognised at its carrying amount at the date when the control is lost and it does not give rise to fair value re-measurement gain or loss. The adoption of these revised standards has affected the accounting for acquisitions and transactions with non-controlling interests during the current year.

## Notes to the Accounts

### 1 Basis of preparation (continued)

#### (c) Husky Energy's change in IFRS accounting policy for oil and gas properties

Husky Energy has changed its IFRS accounting policy for oil and gas properties. Under the previous policy, all costs of acquisition, exploration for and development of oil and gas reserves were capitalised and accumulated within cost centres on a country-by-country basis. Depletion of oil and gas properties was calculated using the unit-of-production method based on proved oil and gas reserves for each cost centre. Under the new policy, pre-exploration and evaluation costs are expensed as incurred, and exploratory wells will remain capitalised until the drilling operation is complete and the results have been evaluated. If the well does not encounter reserves of commercial quantity, the costs of drilling the well or wells will be written-off to exploration and evaluation expenses. Wells that result in commercial quantities of reserves remain capitalised and reclassified into property, plant, and equipment. The Group has adopted Husky Energy's new accounting policy in 2010 with retrospective effect and as a result the comparative information has been restated.

(d) As a result of the changes in accounting policies mentioned above (notes 1(a) to 1(c)), certain adjustments have been made to the comparative information. The effect, where material, of these changes are summarised below:

(i) *Estimated effect on the consolidated income statement for the year ended 31 December 2010*

	Changes in accounting policies			
	Business combinations HK\$ millions	Classification of leases of land HK\$ millions	Oil and gas properties HK\$ millions	Total HK\$ millions
<b>Company and subsidiary companies:</b>				
Revenue	–	–	–	–
Cost of inventories sold	–	–	–	–
Staff costs	–	–	–	–
Telecommunications customer acquisition costs	–	–	–	–
Depreciation and amortisation	–	–	–	–
Other operating expenses	(138)	–	–	(138)
Change in fair value of investment properties	–	–	–	–
Profit on disposal of investments	–	–	–	–
<b>Share of profits less losses after tax of:</b>				
Associated companies	–	–	(755)	(755)
Jointly controlled entities	–	–	–	–
	(138)	–	(755)	(893)
Interest and other finance costs	–	–	–	–
<b>Profit before tax</b>	(138)	–	(755)	(893)
Current tax charge	–	–	–	–
Deferred tax credit (charge)	–	–	–	–
<b>Profit after tax</b>	(138)	–	(755)	(893)
<b>Allocated as : Profit attributable to non-controlling interests and holders of perpetual capital securities</b>	(37)	–	–	(37)
<b>Profit attributable to ordinary shareholders of the Company</b>	(175)	–	(755)	(930)
<b>Earnings per share for profit attributable to ordinary shareholders of the Company</b>	(HK\$ 0.04)	–	(HK\$ 0.18)	(HK\$ 0.22)

## 1 Basis of preparation (continued)

(ii) *Estimated effect on the consolidated statement of financial position as at 31 December 2010*

	Changes in accounting policies			Total HK\$ millions
	Business combinations HK\$ millions	Classification of leases of land HK\$ millions	Oil and gas properties HK\$ millions	
<b>ASSETS</b>				
<b>Non-current assets</b>				
Fixed assets	–	4,698	–	4,698
Investment properties	–	–	–	–
Leasehold land	–	(4,698)	–	(4,698)
Telecommunications licences	–	–	–	–
Goodwill	5	–	–	5
Brand names and other rights	–	–	–	–
Associated companies	440	–	(1,835)	(1,395)
Interests in joint ventures	–	–	–	–
Deferred tax assets	–	–	–	–
Other non-current assets	–	–	–	–
Liquid funds and other listed investments	–	–	–	–
	445	–	(1,835)	(1,390)
<b>Current assets</b>				
Cash and cash equivalents	–	–	–	–
Trade and other receivables	–	–	–	–
Inventories	–	–	–	–
	–	–	–	–
<b>Current liabilities</b>				
Trade and other payables	–	–	–	–
Bank and other debts	–	–	–	–
Current tax liabilities	–	–	–	–
	–	–	–	–
<b>Net current assets</b>				
	–	–	–	–
<b>Total assets less current liabilities</b>				
	445	–	(1,835)	(1,390)
<b>Non-current liabilities</b>				
Bank and other debts	–	–	–	–
Interest bearing loans from non-controlling shareholders	–	–	–	–
Deferred tax liabilities	–	–	–	–
Pension obligations	–	–	–	–
Other non-current liabilities	–	–	–	–
	–	–	–	–
<b>Net assets</b>				
	445	–	(1,835)	(1,390)
<b>CAPITAL AND RESERVES</b>				
Share capital	–	–	–	–
Perpetual capital securities	–	–	–	–
Reserves	408	–	(1,835)	(1,427)
<b>Total ordinary shareholders' funds and perpetual capital securities</b>				
	408	–	(1,835)	(1,427)
Non-controlling interests	37	–	–	37
<b>Total equity</b>				
	445	–	(1,835)	(1,390)

## Notes to the Accounts

### 1 Basis of preparation (continued)

(iii) *Effect on the consolidated income statement for the year ended 31 December 2009*

	As previously reported HK\$ millions	Changes in accounting policies		As restated HK\$ millions
		Classification of leases of land HK\$ millions	Oil and gas properties HK\$ millions	
<b>Company and subsidiary companies:</b>				
Revenue	208,808	—	—	208,808
Cost of inventories sold	(74,275)	—	—	(74,275)
Staff costs	(28,309)	—	—	(28,309)
Telecommunications customer acquisition costs	(16,544)	—	—	(16,544)
Depreciation and amortisation	(16,258)	—	—	(16,258)
Other operating expenses	(60,769)	—	—	(60,769)
Change in fair value of investment properties	1,117	—	—	1,117
Profit on disposal of investments and others	12,472	—	—	12,472
<b>Share of profits less losses after tax of:</b>				
Associated companies	5,927	—	(537)	5,390
Jointly controlled entities	3,677	—	—	3,677
	35,846	—	(537)	35,309
Interest and other finance costs	(9,613)	—	—	(9,613)
<b>Profit before tax</b>	26,233	—	(537)	25,696
Current tax charge	(4,588)	—	—	(4,588)
Deferred tax credit	92	—	—	92
<b>Profit after tax</b>	21,737	—	(537)	21,200
<b>Allocated as : Profit attributable to non-controlling interests</b>	(7,569)	—	—	(7,569)
<b>Profit attributable to shareholders of the Company</b>	14,168	—	(537)	13,631
<b>Earnings per share for profit attributable to shareholders of the Company</b>	HK\$ 3.32	—	(HK\$ 0.12)	HK\$ 3.20

## 1 Basis of preparation (continued)

(iv) *Effect on the consolidated statement of financial position as at 31 December 2009*

	As previously reported HK\$ millions	Changes in accounting policies		As restated HK\$ millions
		Classification of leases of land HK\$ millions	Oil and gas properties HK\$ millions	
<b>ASSETS</b>				
<b>Non-current assets</b>				
Fixed assets	171,399	4,793	—	176,192
Investment properties	42,323	—	—	42,323
Leasehold land	33,984	(4,793)	—	29,191
Telecommunications licences	70,750	—	—	70,750
Goodwill	28,858	—	—	28,858
Brand names and other rights	7,351	—	—	7,351
Associated companies	84,748	—	(1,032)	83,716
Interests in joint ventures	51,568	—	—	51,568
Deferred tax assets	14,657	—	—	14,657
Other non-current assets	5,286	—	—	5,286
Liquid funds and other listed investments	23,213	—	—	23,213
	534,137	—	(1,032)	533,105
<b>Current assets</b>				
Cash and cash equivalents	92,521	—	—	92,521
Trade and other receivables	48,146	—	—	48,146
Inventories	16,593	—	—	16,593
	157,260	—	—	157,260
<b>Current liabilities</b>				
Trade and other payables	73,029	—	—	73,029
Bank and other debts	17,589	—	—	17,589
Current tax liabilities	3,249	—	—	3,249
	93,867	—	—	93,867
<b>Net current assets</b>	63,393	—	—	63,393
<b>Total assets less current liabilities</b>	597,530	—	(1,032)	596,498
<b>Non-current liabilities</b>				
Bank and other debts	242,851	—	—	242,851
Interest bearing loans from non-controlling shareholders	13,424	—	—	13,424
Deferred tax liabilities	13,355	—	—	13,355
Pension obligations	2,436	—	—	2,436
Other non-current liabilities	4,520	—	—	4,520
	276,586	—	—	276,586
<b>Net assets</b>	320,944	—	(1,032)	319,912
<b>CAPITAL AND RESERVES</b>				
Share capital	1,066	—	—	1,066
Reserves	282,465	—	(1,032)	281,433
<b>Total shareholders' funds</b>	283,531	—	(1,032)	282,499
Non-controlling interests	37,413	—	—	37,413
<b>Total equity</b>	320,944	—	(1,032)	319,912

## Notes to the Accounts

### 1 Basis of preparation (continued)

(v) *Effect on the consolidated income statement for the year ended 31 December 2008*

	As previously reported HK\$ millions	Changes in accounting policies		As restated HK\$ millions
		Classification of leases of land HK\$ millions	Oil and gas properties HK\$ millions	
<b>Company and subsidiary companies:</b>				
Revenue	235,478	—	—	235,478
Cost of inventories sold	(77,172)	—	—	(77,172)
Staff costs	(31,929)	—	—	(31,929)
Telecommunications customer acquisition costs	(22,926)	—	—	(22,926)
Depreciation and amortisation	(24,876)	—	—	(24,876)
Other operating expenses	(66,001)	—	—	(66,001)
Change in fair value of investment properties	672	—	—	672
Profit on disposal of investments and others	3,458	—	—	3,458
<b>Share of profits less losses after tax of:</b>				
Associated companies before profit on disposal of investments and others	12,522	—	(232)	12,290
Jointly controlled entities	5,286	—	—	5,286
Associated company's profit on disposal of an investment and others	3,122	—	—	3,122
	37,634	—	(232)	37,402
Interest and other finance costs	(17,286)	—	—	(17,286)
<b>Profit before tax</b>	<b>20,348</b>	<b>—</b>	<b>(232)</b>	<b>20,116</b>
Current tax charge	(3,443)	—	—	(3,443)
Deferred tax credit	2,576	—	—	2,576
<b>Profit after tax</b>	<b>19,481</b>	<b>—</b>	<b>(232)</b>	<b>19,249</b>
<b>Allocated as : Profit attributable to non-controlling interests</b>	<b>(6,800)</b>	<b>—</b>	<b>—</b>	<b>(6,800)</b>
<b>Profit attributable to shareholders of the Company</b>	<b>12,681</b>	<b>—</b>	<b>(232)</b>	<b>12,449</b>
<b>Earnings per share for profit attributable to shareholders of the Company</b>	<b>HK\$ 2.97</b>	<b>—</b>	<b>(HK\$ 0.05)</b>	<b>HK\$ 2.92</b>

## 1 Basis of preparation (continued)

(vi) *Effect on the consolidated statement of financial position as at 1 January 2009*

	As previously reported HK\$ millions	Changes in accounting policies		As restated HK\$ millions
		Classification of leases of land HK\$ millions	Oil and gas properties HK\$ millions	
<b>ASSETS</b>				
<b>Non-current assets</b>				
Fixed assets	173,246	4,897	—	178,143
Investment properties	41,282	—	—	41,282
Leasehold land	34,745	(4,897)	—	29,848
Telecommunications licences	72,175	—	—	72,175
Goodwill	30,436	—	—	30,436
Brand names and other rights	10,486	—	—	10,486
Associated companies	76,478	—	(433)	76,045
Interests in joint ventures	45,865	—	—	45,865
Deferred tax assets	13,248	—	—	13,248
Other non-current assets	8,904	—	—	8,904
Liquid funds and other listed investments	30,735	—	—	30,735
	537,600	—	(433)	537,167
<b>Current assets</b>				
Cash and cash equivalents	57,286	—	—	57,286
Trade and other receivables	54,767	—	—	54,767
Inventories	18,528	—	—	18,528
	130,581	—	—	130,581
<b>Current liabilities</b>				
Trade and other payables	82,599	—	—	82,599
Bank and other debts	23,945	—	—	23,945
Current tax liabilities	1,274	—	—	1,274
	107,818	—	—	107,818
<b>Net current assets</b>	22,763	—	—	22,763
<b>Total assets less current liabilities</b>	560,363	—	(433)	559,930
<b>Non-current liabilities</b>				
Bank and other debts	234,141	—	—	234,141
Interest bearing loans from non-controlling shareholders	13,348	—	—	13,348
Deferred tax liabilities	13,616	—	—	13,616
Pension obligations	2,541	—	—	2,541
Other non-current liabilities	4,586	—	—	4,586
	268,232	—	—	268,232
<b>Net assets</b>	292,131	—	(433)	291,698
<b>CAPITAL AND RESERVES</b>				
Share capital	1,066	—	—	1,066
Reserves	259,253	—	(433)	258,820
<b>Total shareholders' funds</b>	260,319	—	(433)	259,886
Non-controlling interests	31,812	—	—	31,812
<b>Total equity</b>	292,131	—	(433)	291,698

## Notes to the Accounts

### 2 Significant accounting policies

#### (a) Basis of consolidation

The consolidated accounts of the Group include the accounts for the year ended 31 December 2010 of the Company and of all its direct and indirect subsidiary companies and also incorporate the Group's interest in associated companies and jointly controlled entities on the basis set out in notes 2(c) and 2(d) below. Results of subsidiary and associated companies and jointly controlled entities acquired or disposed of during the year are included as from their effective dates of acquisition to 31 December 2010 or up to the dates of disposal as the case may be. The acquisition of subsidiaries is accounted for using the purchase method.

#### (b) Subsidiary companies

A subsidiary is an entity that the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities. In the consolidated accounts, subsidiary companies are accounted for as described in note 2(a) above. In the unconsolidated accounts of the holding company, investments in subsidiary companies are carried at cost less provision for impairment in value.

#### (c) Associated companies

An associate is an entity, other than a subsidiary or a jointly controlled entity, in which the Group has a long-term equity interest and over which the Group is in a position to exercise significant influence over its management, including participation in the financial and operating policy decisions.

The results and assets and liabilities of associates are incorporated in these accounts using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under HKFRS 5, Non-current assets held for sale and discontinued operations. The total carrying amount of such investments is reduced to recognise any identified impairment loss in the value of individual investments.

#### (d) Joint ventures

A joint venture is a contractual arrangement whereby the venturers undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

A jointly controlled entity is a joint venture which involves the establishment of a separate entity. The results and assets and liabilities of jointly controlled entities are incorporated in these accounts using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under HKFRS 5, Non-current assets held for sale and discontinued operations. The total carrying amount of such investments is reduced to recognise any identified impairment loss in the value of individual investments.

#### (e) Fixed assets

Fixed assets are stated at cost less depreciation and any impairment loss. Buildings are depreciated on the basis of an expected life of 50 years, or the remainder thereof, or over the remaining period of the lease of the underlying leasehold land, whichever is less. The period of the lease includes the period for which a right of renewal is attached.

Depreciation of other fixed assets is provided at rates calculated to write off their costs over their estimated useful lives on a straight-line basis at the following annual rates:

Motor vehicles	20 - 25%
Plant, machinery and equipment	3 <sup>1</sup> / <sub>3</sub> - 20%
Container terminal equipment	3 - 20%
Telecommunications equipment	2.5 - 10%
Leasehold improvements	Over the unexpired period of the lease or 15%, whichever is greater



## 2 Significant accounting policies *(continued)*

### (e) Fixed assets *(continued)*

The gain or loss on disposal or retirement of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

### (f) Investment properties

Investment properties are interests in land and buildings that are held to earn rentals or for capital appreciation or both. Such properties are carried in the statement of financial position at their fair value as determined by professional valuation. Changes in fair values of investment properties are recorded in the income statement.

### (g) Leasehold land

The acquisition costs and upfront payments made for leasehold land are presented on the face of the statement of financial position as leasehold land and expensed in the income statement on a straight-line basis over the period of the lease.

### (h) Telecommunications licences

Telecommunications licences are comprised of the upfront payments (including non-cash consideration) made for acquiring telecommunications spectrum licences plus the capitalised present value of fixed periodic payments to be made in subsequent years, together with the interest accrued prior to the date of first commercial usage of the spectrum.

Telecommunications licences that are considered to have an indefinite useful life to the Group are not amortised and are tested for impairment annually and when there is indication that they may be impaired. Telecommunications licences with finite useful lives are amortised on a straight-line basis from the date of first commercial usage of the related spectrum over the remaining expected contracted or expected licence periods ranging from approximately 9 to 20 years and are stated net of accumulated amortisation .

### (i) Telecommunications customer acquisition costs

Telecommunications customer acquisition costs ("CACs") comprise the net costs to acquire and retain mobile telecommunications customers, which are primarily 3G customers. All telecommunications CACs are expensed and recognised in the income statement in the period in which they are incurred.

### (j) Goodwill

Goodwill is initially measured at cost being excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the fair value of the net identifiable assets acquired and liabilities assumed. Goodwill on acquisition of a foreign operation is treated as an asset of the foreign operation.

Goodwill arising on acquisition is retained at the carrying amount as a separate asset or, as applicable, included within investments in associated companies and jointly controlled entities at the date of acquisition, and subject to impairment test annually and when there are indications that the carrying value may not be recoverable. If the cost of acquisition is less than the fair value of the Group's share of the net identifiable assets of the acquired company, the difference is recognised directly in the income statement.

The profit or loss on disposal of subsidiary company, associated company or jointly controlled entity is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill but does not include any attributable goodwill previously eliminated against reserves.

## Notes to the Accounts

### 2 Significant accounting policies (continued)

#### (k) Brand names and other rights

The payments (including non-cash consideration) made for acquiring brand names and other rights are capitalised. Brand names and other rights with indefinite lives are not amortised. Brand names and other rights with finite lives are amortised on a straight-line basis from the date of their first commercial usage over their estimated useful lives ranging from approximately 3 to 40 years. Brand names and other rights are stated net of accumulated amortisation, if any.

#### (l) Deferred tax

Deferred tax is provided in full, using the liabilities method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### (m) Liquid funds and other listed investments and other unlisted investments

"Liquid funds and other listed investments" are investments in listed / traded debt securities, listed equity securities, long-term deposits and cash and cash equivalents. "Other unlisted investments", disclosed under other non-current assets, are investments in unlisted debt securities, unlisted equity securities and other receivables. These investments are recognised and derecognised on the date the Group commits to purchase or sell the investments or when they expire. These investments are classified and accounted for as follows:

##### *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 income statement.

##### *Held-to-maturity investments*

"Held-to-maturity investments" are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. At the end of the reporting period subsequent to initial recognition, held-to-maturity investments are carried at amortised cost less impairment. Interest calculated using the effective interest method is recognised in the income statement.

##### *Financial assets at fair value through profit or loss*

"Financial assets at fair value through profit or loss" are financial assets where changes in fair value are recognised in the income statement in the period in which they arise. At the end of the reporting period subsequent to initial recognition, these financial assets are carried at fair value. In addition, any dividends or interests earned on these financial assets are recognised in the income statement.

##### *Available-for-sale investments*

"Available-for-sale investments" are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. At the end of the reporting period subsequent to initial recognition, these financial assets are carried at fair value and changes in fair value are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve except for impairment losses which are charged to the income statement. Where these investments are interest bearing, interest calculated using the effective interest method is recognised in the income statement. Dividends from available-for-sale investments are recognised when the right to receive payment is established. When available-for-sale investments are sold, the cumulative fair value gains or losses previously recognised in investment revaluation reserve is removed from investment revaluation reserve and recognised in the income statement.

## 2 Significant accounting policies (continued)

### (n) Derivative financial instruments and hedging activities

Derivative financial instruments are utilised by the Group in the management of its foreign currency and interest rate exposures. The Group's policy is not to utilise derivative financial instruments for trading or speculative purposes. Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Changes in fair value are recognised based on whether certain qualifying criteria under HKAS 39 are satisfied in order to apply hedge accounting, and if so, the nature of the items being hedged.

Derivatives designated as hedging instruments to hedge the fair value of recognised assets or liabilities may qualify as fair value hedges. The Group mainly enters into interest rate swap contracts to swap certain fixed interest rate borrowings into floating interest rate borrowings. Changes in the fair value of these derivative contracts, together with the changes in the fair value of the hedged assets or liabilities attributable to the hedged risk are recognised in the income statement as interest and other finance costs. At the same time the carrying amount of the hedged asset or liability in the statement of financial position is adjusted for the changes in fair value.

Derivatives designated as hedging instruments to hedge against the cash flows attributable to recognised assets or liabilities or forecast payments may qualify as cash flow hedges. The Group mainly enters into interest rate swap contracts to swap certain floating interest rate borrowings to fixed interest rate borrowings and foreign currency contracts to hedge the currency risk associated with certain forecast foreign currency payments and obligations. Changes in the fair value of these derivative contracts are recognised in other comprehensive income and accumulated under the heading of hedging reserve. Amounts accumulated are removed from hedging reserve and recognised in the income statement in the periods when the hedged derivative contract matures, except, when the forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the amounts accumulated are transferred from hedging reserve and, then they are included in the initial cost of the asset or liability.

Derivatives that do not qualify for hedge accounting under HKAS 39 will be accounted for with the changes in fair value being recognised in the income statement.

### (o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Appropriate allowance for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

### (p) Properties under development

Land for properties under development is stated at cost and development expenditure is stated at the aggregate amount of costs incurred up to the date of completion, including capitalised interest on related loans.

### (q) Inventories

Inventories consist mainly of retail goods and the carrying value is mainly determined using the weighted average cost method. Inventories are stated at the lower of cost and net realisable value.

### (r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

## Notes to the Accounts

### 2 Significant accounting policies (continued)

#### (s) Borrowings and borrowing costs

The Group's borrowings and debt instruments are initially measured at fair value, net of transaction costs, and are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings and debt instruments is recognised over the period of the borrowings using effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

#### (t) Trade and other payables

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

#### (u) Customer loyalty credits

Customer loyalty credits are accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed.

#### (v) Share capital

Share capital issued by the Company are recorded in equity at the proceeds received, net of direct issue costs.

#### (w) 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.

#### (x) Leased assets

Assets acquired pursuant to finance leases and hire purchase contracts that transfer to the Group substantially all the rewards and risks of ownership are accounted for as if purchased.

Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Lease payments are treated as consisting of capital and interest elements. The capital element of the leasing commitment is included as a liability and the interest element is charged to the income statement. All other leases are accounted for as operating leases and the rental payments are charged to the income statement on accrual basis.

#### (y) 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 sell and value in use. Such impairment loss is recognised in the income statement 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.

## 2 Significant accounting policies (continued)

### (z) Pension plans

Pension plans are classified into defined benefit and defined contribution plans.

Pension costs for defined benefit plans are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the future service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the end of the reporting period based on government agency or high quality corporate bonds with currency and term similar to the estimated term of benefit obligations. All actuarial gains and losses are recognised in full, in the year in which they occur, in other comprehensive income.

The Group's contributions to the defined contribution plans are charged to the income statement in the year incurred.

Pension costs are charged against the income statement within staff costs.

The pension plans are generally funded by the relevant Group companies taking into account the recommendations of independent qualified actuaries and by payments from employees for contributory plans.

### (aa) Share-based payments

The Company has no share option scheme but certain of the Company's subsidiary companies and associated companies have issued equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the respective group companies' estimate of their shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at the end of the reporting period.

### (ab) Foreign exchange

Transactions in foreign currencies are converted at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities are translated at the rates of exchange ruling at the end of the reporting period. Exchange differences are included in the determination of profit for the year.

The accounts of overseas subsidiary and associated companies and jointly controlled entities are translated into Hong Kong dollars using the year end rates of exchange for the statement of financial position items and the average rates of exchange for the year for the income statement items. Exchange differences are recognised in other comprehensive income and accumulated under the heading of exchange reserve. Exchange differences arising from foreign currency borrowings and other currency instruments designated as hedges of such overseas investments, are recognised in other comprehensive income and accumulated under the heading of exchange reserve. On disposal of the net investment in a foreign entity, such exchange gains or losses are transferred out of the exchange reserve and are recognised in the income statement. Exchange differences arising from translation of inter-company loan balances between Group entities are recognised in other comprehensive income and accumulated under the heading of exchange reserve when such loans form part of the Group's net investment in a foreign entity.

## Notes to the Accounts

### 2 Significant accounting policies (continued)

#### (ac) Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

##### *Ports and related services*

Revenue from the provision of ports and related services is recognised when the service is rendered.

##### *Property and hotels*

Revenue from the sale of properties is recognised either on the date of sale or on the date of issue of the relevant occupation permit, whichever is later and the economic benefit accrues to the Group and the significant risks and rewards of the properties accrue to the purchasers.

Rental income is recognised on a straight-line basis over the period of the lease.

Revenue from the provision of hotel management, consultancy and technical service is recognised when the service is rendered.

##### *Retail*

Revenue from the sale of retail goods is recognised at point of sales less an estimate for sales return based on past experience where goods are sold with a right to return. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of sales, including credit card fees payable for the transaction.

##### *Energy and infrastructure*

Revenue from the sale of crude oil, natural gas, refined petroleum products and other energy products are recorded when title passes to an external party.

Revenue associated with the sale of transportation, processing and natural gas storage services is recognised when the service is rendered.

Income from infrastructure projects is recognised on a time proportion basis, using the effective interest method.

Income from long-term contracts is recognised according to the stage of completion.

##### *Finance and investments*

Dividend income from investments in securities is recognised when the Group's right to receive payment is established.

Interest income is recognised on a time proportion basis using the effective interest method.

##### *Mobile and fixed-line telecommunications services*

Revenue from the provision of mobile telecommunications services with respect to voice, video, internet access, messaging and media services, including data services and information provision, is recognised when the service is rendered and, depending on the nature of the services, is recognised either at gross amount billed to the customer or the amount receivable as commission for facilitating the services.

Revenue from the sale of prepaid mobile calling cards is recognised upon customer's usage of the card or upon the expiry of the service period.

For bundled transactions under contract comprising of provision of mobile telecommunications services and sale of a handset device, the amount of revenue recognised upon the sale of the handset device is accrued as determined by considering the estimated fair values of each of the services element and handset device element of the contract.

Other service income is recognised when the service is rendered.

Customer service revenue is mobile telecommunications service revenue and where a customer is invoiced for a bundled transaction under contract, the invoiced amount less amounts related to accrued handset device revenue and also less other service income.

Total revenue arising from mobile and fixed-line telecommunications services comprises of service revenue, other service income and sale of handset device revenue.

## 2 Significant accounting policies (continued)

At the date of authorisation of these accounts, the following standards, amendments and interpretations were in issue but not yet effective and have not been early adopted by the Group:

HKFRSs (Amendments) <sup>(1)</sup>	Improvements to HKFRSs issued in 2010
HKAS 12 (Amendments) <sup>(2)</sup>	Deferred Tax: Recovery of Underlying Assets
HKAS 24 (Revised) <sup>(1)</sup>	Related Party Disclosures
HKAS 32 (Amendment) <sup>(1)</sup>	Classification of Rights Issues
HKFRS 1 (Amendment) <sup>(1)</sup>	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRS 1 (Amendments) <sup>(2)</sup>	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments) <sup>(2)</sup>	Transfers of Financial Assets
HKFRS 9 <sup>(3)</sup>	Financial Instruments
Additions to HKFRS 9 <sup>(3)</sup>	Financial Instruments – Financial Liabilities
Hong Kong (IFRIC) Interpretation 19 <sup>(1)</sup>	Extinguishing Financial Liabilities with Equity Instruments
Hong Kong (IFRIC) Interpretation 14 (Amendment) <sup>(1)</sup>	Prepayments of a Minimum Funding Requirement

(1) Effective for the Group for annual periods beginning 1 January 2011

(2) Effective for the Group for annual periods beginning 1 January 2012

(3) Effective for the Group for annual periods beginning 1 January 2013

The adoption of standards, amendments and interpretations listed above, with the exception of HKAS 12 (Amendments), HKFRS 9 and Additions to HKFRS 9, in future periods is not expected to result in substantial changes to the Group's accounting policies.

HKAS 12 (Amendments) Deferred Tax: Recovery of Underlying Assets applies to annual periods beginning 1 January 2012 and is available for early adoption. The current version of HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale. The amendments introduce a presumption that recovery of the carrying amount of an investment property is through sale. Accordingly, the effect that the adoption of the amendments will have on the results and financial position of the Group will depend on the timing of the adoption and the relevant applicable tax rate. As a result, it is impracticable to quantify the impact of amendments to HKAS 12 as at the date of publication of these accounts.

HKFRS 9 Financial Instruments introduces new requirements for classifying and measuring financial assets. Together with Additions to HKFRS 9 Financial Instruments – Financial Liabilities, these changes represent the first phase in the process to replace HKAS 39 Financial Instruments: Recognition and Measurement. The standard is not effective until 1 January 2013 but is available for early adoption. The second and third phases in the HKICPA's project to replace HKAS 39 will address the impairment of financial assets measured at amortised cost and hedge accounting. Accordingly, the impact of HKFRS 9 may change as a consequence of further development resulting from the HKICPA's project to replace HKAS 39. As a result, it is impracticable to quantify the impact of HKFRS 9 as at the date of publication of these accounts.

### 3 Critical accounting estimates and judgements

Note 2 includes a summary of the significant accounting policies used in the preparation of the accounts. The preparation of accounts often requires the use of judgements to select specific accounting methods and policies from several acceptable alternatives. Furthermore, significant estimates and assumptions concerning the future may be required in selecting and applying those methods and policies in the accounts. The Group bases its estimates and judgements on historical experience and various other assumptions that it believes are reasonable under the circumstances. Actual results may differ from these estimates and judgements under different assumptions or conditions.

The following is a review of the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the accounts.

#### (a) Long-lived assets

The Group has made substantial investments in tangible and intangible long-lived assets, primarily in mobile and fixed-line telecommunications networks and licences, container terminals, and properties. Changes in technology or changes in the intended use of these assets may cause the estimated period of use or value of these assets to change.

The Group considers its asset impairment accounting policy to be a policy that requires one of the most extensive applications of judgements and estimates.

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 sell and value in use. Such impairment loss is recognised in the income statement 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 and is recognised in other comprehensive income.

Judgement is required in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may indicate that the related asset values may not be recoverable; (2) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions used to determine the level, if any, of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the income statement.

The Group's 3G businesses commenced commercial operations from 2003 and in accordance with initial business plans are incurring losses as the businesses grow to operating scale. Impairment tests were undertaken as at 31 December 2010 and 31 December 2009 to assess whether the carrying values of the Group's 3G telecommunications licences, network assets and goodwill were supported by the net present value of future cash flows forecast to be derived from the use of these assets for each respective business. The results of the tests undertaken as at 31 December 2010 and 31 December 2009 indicated that no impairment charge was necessary.

The future cash flow projections for the 3G businesses reflect growing recurring revenue and margins derived from an accumulating customer base and diminishing ongoing investments in network infrastructure and in customer acquisitions.



### 3 Critical accounting estimates and judgements *(continued)*

#### (a) Long-lived assets *(continued)*

The forecast growth in recurring revenue and margins is driven primarily by the increasing size of the accumulating customer base, accompanied by profitability improvements due to beneficial changes to services usage profiles. Increasing demand for non-voice value added services such as mobile broadband, sport and music content, multimedia messaging and video services has been experienced and is forecast to continue. Improving operating margins are forecast driven in part by a change in the mix from voice toward non-voice revenues; increased incoming traffic, which generates revenue from other operators, and on-net or intra-network traffic, which avoids interconnection costs being paid to other operators to terminate calls; and operating cost optimisation and cost savings achieved through cell site and network sharing, network maintenances and other outsourcing programmes. Improving profitability is also expected to continue based on the economies of scale effect that is able to be achieved in customer operation and network operations functions. Also factored into the forecasts are the potential dilutive effect of attracting lower value customer when growing the customer base and the expected effect of market competition and development.

Initial investments in the upfront licence payments and the network infrastructure which has been built for scale have been significant. However, as the network capital expenditures are forecast to decline progressively as a percentage of revenues as the network construction phase nears completion and a lower "maintenance" level of capital expenditure is required for ongoing operation. Customer acquisition costs in the start-up phase of operation have also been significant, but are forecast to reduce based on the improved market acceptance of the 3G technology and on the widening availability, improving attractiveness and lower unit cost of 3G handsets, all of which supports a lesser need to provide financial incentives for customers to convert to the new technology.

Projections in excess of five years are used to take into account telecommunications spectrum licence periods, increasing market share and growth momentum. For the purpose of the impairment test, a market specific growth rate of 2% was used to extrapolate cash flows beyond the approved financial budgets period. This low rate was selected solely for the purposes of the impairment test to arrive at a conservative projection of cash flows in excess of five years and does not reflect the forecast long-term industry growth or our expectation of the Group's 3G businesses performance. The discount rates for the test were based on country specific pre-tax risk adjusted discount rate and ranged from 4% to 6%. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment tests.

#### (b) Depreciation and amortisation

##### *(i) Fixed assets*

Depreciation of operating assets constitutes a substantial operating cost for the Group. The cost of fixed assets is charged as depreciation expense over the estimated useful lives of the respective assets using the straight-line method. The Group periodically reviews changes in technology and industry conditions, asset retirement activity and residual values to determine adjustments to estimated remaining useful lives and depreciation rates.

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

### 3 Critical accounting estimates and judgements *(continued)*

#### (b) Depreciation and amortisation *(continued)*

##### *(ii) Telecommunications licences*

Telecommunications licences comprise the right to use spectrum and the right to provide a telecommunications service.

Telecommunications licences that are considered to have an indefinite useful life to the Group are not amortised. Telecommunications licences with finite useful lives are amortised on a straight-line basis from the date of first commercial usage of the related spectrum over the remaining expected licence periods and are stated net of accumulated amortisation. Licences are reviewed for impairment annually.

On the basis of confirmation from the Ministry of the Italian Government that the Group's 3G licence term in Italy can be continuously extended for a period equivalent to the previous term, effectively making it a perpetual licence, and the enactment by the UK Houses of Parliament of a statutory instrument, which inter alia changes the life of the Group's 3G licence to indefinite, the Group's 3G licences in Italy and in the UK are considered to have an indefinite useful life.

Judgement is required to determine the useful lives of the Group's telecommunications licences. The actual economic lives of the Group's telecommunications spectrum licences may differ from the current contracted or expected licence periods, which could impact the amount of amortisation expense charged to the income statement. In addition, governments from time to time revise the terms of licences to change, amongst other terms, the contracted or expected licence period, which could also impact the amount of amortisation expense charged to the income statement.

For the purposes of impairment tests, the recoverable amount of licences is determined based on value in use calculations. The value in use calculations primarily use cash flow projections based on financial budgets approved by management and estimated terminal value at the end of the approved financial budgets period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth in revenues and gross margin, timing of future capital expenditures, growth rates and selection of discount rates and the earnings multiple that can be realised for the estimated terminal value. The Group prepared the financial budgets reflecting actual and prior year performance and market development expectations. Projections in excess of five years are used to take into account telecommunications spectrum licence periods, increasing market share and growth momentum. For the purpose of the impairment test, a market specific growth rate of 2% was used to extrapolate cash flows beyond the approved financial budgets period. This low rate was selected solely for the purposes of the impairment test to arrive at a conservative projection of cash flows in excess of five years and does not reflect the forecast long-term industry growth or our expectation of these businesses performance. The discount rates for the test were based on country specific pre-tax risk adjusted discount rate and ranged from 4% to 6% (for example, 4.5% and 5.2% used in the Group's 3G operations in Italy and the UK respectively). While a reasonably possible change in a key assumption on which the recoverable amount of the telecommunications licences and network assets of the Group's 3G businesses (including 3G operations in Italy and the UK that have telecommunications licences with indefinite useful lives) is based would not cause the carrying amount to exceed their recoverable amount, judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment tests.

### 3 Critical accounting estimates and judgements *(continued)*

#### (b) Depreciation and amortisation *(continued)*

##### *(iii) Telecommunications customer acquisition costs*

Telecommunications customer acquisition costs ("CAC") comprise the net costs to acquire and retain mobile telecommunications customers, which are primarily 3G customers. All telecommunications CACs are expensed and recognised in the income statement in the period in which they are incurred.

Judgement is required to determine the most appropriate accounting policy for telecommunications CAC. Any change in the accounting policy to capitalise these costs will impact the charge to the income statement as these costs will be capitalised and amortised over the contract periods.

#### (c) Goodwill

Goodwill is initially measured at cost being excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the fair value of the net identifiable assets acquired and liabilities assumed. Goodwill is recorded as a separate asset or, as applicable, included within investments in associated companies and joint ventures. Goodwill is also subject to the impairment test described above. The results of the tests undertaken as at 31 December 2010 and 31 December 2009 indicated that no impairment charge was necessary.

For the purposes of impairment tests, the recoverable amount of goodwill is determined based on value in use calculations. The value in use calculations primarily use cash flow projections based on financial budgets approved by management and estimated terminal value at the end of the approved financial budgets period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth in revenues and gross margin, timing of future capital expenditures, growth rates and selection of discount rates and the earnings multiple that can be realised for the estimated terminal value. The Group prepared the financial budgets reflecting actual and prior year performance and market development expectations. For the purpose of the impairment test, a market specific growth rate of 2% was used to extrapolate cash flows beyond the approved financial budgets period. This low rate was selected solely for the purposes of the impairment test to arrive at a conservative projection of cash flows in excess of five years and does not reflect the forecast long-term industry growth or our expectation of these businesses performance. The discount rates for the test were based on country specific pre-tax risk adjusted discount rate and ranged from 4% to 7%. Judgement is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment tests.

#### (d) Valuation

##### *(i) Investment properties*

Investment properties are interests in land and buildings that are held to earn rentals or for capital appreciation or both. Such properties are carried in the statement of financial position at their fair value as determined by professional valuation. In determining the fair value of the investment properties, the valuers use assumptions and estimates that reflect, amongst other things, comparable market transactions, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. Judgement is required to determine the principal valuation assumptions to determine the fair value of the investment properties. Changes in fair values of investment properties are recorded in the income statement.

### 3 Critical accounting estimates and judgements (continued)

#### (d) Valuation (continued)

##### *(ii) Brand names and other rights*

Brand names and other rights include rights to access and use infrastructure sites in the UK and customer base relating to subsidiaries acquired. These are initially carried in the statement of financial position at their fair value as determined by professional valuation and amortised over their useful lives unless they are assessed to have indefinite useful lives. The factors considered in the assessment of the fair value and useful lives include assumptions and estimates that reflect, amongst other things, comparable market transactions, rental charges for the use of similar rights in light of current market conditions, analysis of market and competitive trends, product life cycles, brand extension opportunities and contractual terms as applicable.

Judgement is required to determine the principal valuation assumptions to determine fair value and assessment of useful lives.

##### *(iii) Telecommunications licences*

The assignment to 3 Italy of two blocks of 5MHz of 1,800 MHz spectrum is initially carried in the statement of financial position at its fair value by reference to comparable market transactions and to costs saved, being the estimated acquisition costs and estimated annual fees saved.

Judgement is required to determine the fair value of the licenses.

#### (e) Tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the accounts.

Deferred tax assets are recognised for unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at the end of the reporting period and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carry forward tax losses, the asset balance will be reduced and charged to the income statement.

The 3G businesses commenced commercial operations from 2003 and in accordance with initial business plans are incurring losses as the businesses grow to operating scale. Deferred tax assets have been recognised for the carryforward amount of unused tax losses relating to the Group's 3G operation in the UK where, amongst other things, tax losses can be carried forward indefinitely and there is availability of group relief for tax purposes that can be utilised to offset taxable profits generated by the Group's other operations in the UK. No deferred tax assets have been recognised for the unused tax losses carried forward by the Group's other 3G operations since there are less opportunities to utilise the tax losses in the near term, for instance, unlike the UK there is no opportunity for group relief and in certain countries tax losses will expire if not utilised within a short period of time e.g. tax losses in Italy will expire if not utilised within 5 years. The ultimate realisation of deferred tax assets recognised for 3 UK depends principally on this business achieving profitability and generating sufficient taxable profits to utilise the underlying unused tax losses. It may be necessary for some or all of the deferred tax assets recognised to be reduced and charged to the income statement if there is a significant adverse change in the projected performance and resulting projected taxable profits of this business. Judgement is required to determine key assumptions adopted in the taxable profit and loss projections and changes to key assumptions used can significantly affect these taxable profit and loss projections.

### 3 Critical accounting estimates and judgements *(continued)*

#### (e) Tax *(continued)*

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were previously recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

#### (f) Pension costs

The Group operates several defined benefit plans. Pension costs for defined benefit plans are assessed using the projected unit credit method in accordance with HKAS 19, Employee Benefits. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the future service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the end of the reporting period based on government agency or high quality corporate bonds with currency and term similar to the estimated term of benefit obligations. All actuarial gains and losses are recognised in full, in the year in which they occur, in other comprehensive income.

Management appointed actuaries to carry out a full valuation of these pension plans to determine the pension obligations that are required to be disclosed and accounted for in the accounts in accordance with the HKFRS requirements.

The actuaries use assumptions and estimates in determining the fair value of the defined benefit plans and evaluate and update these assumptions on an annual basis. Judgement is required to determine the principal actuarial assumptions to determine the present value of defined benefit obligations and service costs. Changes to the principal actuarial assumptions can significantly affect the present value of plan obligations and service costs in future periods.

#### (g) Sale and leaseback transactions

The Group classifies leases into finance leases or operating leases in accordance with the accounting policies stated in note 2(x). Determining whether a lease transaction is a finance lease or an operating lease is a complex issue and requires substantial judgement as to whether the lease agreement transfers substantially all the risks and rewards of ownership to or from the Group. Careful and considered judgement is required on various complex aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether renewal options are included in the lease term and determining an appropriate discount rate to calculate the present value of the minimum lease payments.

Classification as a finance lease or operating lease determines whether the leased asset is capitalised and recognised on the statement of financial position as set out in note 2(x). In sale and leaseback transactions, the classification of the leaseback arrangements as described above determines how the gain or loss on the sale transaction is recognised. It is either deferred and amortised (finance lease) or recognised in the income statement immediately (operating lease).

#### (h) Allocation of revenue for bundled telecommunications transactions with customers

The Group has bundled transactions under contract with customers including sales of both services and hardware (for example handsets). The amount of revenue recognised upon the sale of hardware is determined by considering the estimated fair values of each of the service element and hardware element of the contract. Significant judgement is required in assessing fair values of both of these elements by considering inter alia, standalone selling price and other observable market data. Changes in the estimated fair values may cause the revenue recognised for sales of services and hardware to change individually but not the total bundled revenue from a specific customer throughout its contract term. The Group periodically re-assesses the fair value of the elements as a result of changes in market conditions.

## Notes to the Accounts

### 4 Turnover and revenue

Turnover comprises revenues from the sales of goods and development properties, provision of services and rental income from investment properties, interest income and finance charges earned, and dividend income from equity investments. An analysis of revenue of the Company and subsidiary companies is as follows:

	2010 HK\$ millions	2009 HK\$ millions
Sales of goods	106,882	100,643
Rendering of services	99,531	104,846
Interest	2,546	2,995
Dividends	221	324
	<b>209,180</b>	208,808

### 5 Operating segment information

Operating segments are reported in a manner consistent with internal reporting provided to the board of directors of the Company who is responsible for allocating resources and assessing performance of the operating segments. The column headed as Company and Subsidiaries refers to the Company and subsidiary companies' respective items. The column headed as Associates and JCE refers to the Group's share of associated companies and jointly controlled entities' respective items (see notes 19 and 20).

Finance & Investments represents returns earned on the Group's holdings of cash and liquid investments. Others includes Hutchison Whampoa (China), Hutchison E-Commerce operations, listed subsidiary Hutchison China MediTech Limited, listed subsidiary Hutchison Harbour Ring ("HHR") and listed associate Tom Group and others. Hutchison Telecommunications Hong Kong Holdings includes the Hong Kong and Macau mobile and fixed-line telecommunications operations. Hutchison Asia Telecommunications includes telecommunications operations in Indonesia, Sri Lanka, Thailand and Vietnam. Telecommunications - 3 Group includes 3G operations in the UK, Italy, Sweden, Austria, Denmark, Norway, Ireland and Australia.

Revenue from external customers is after elimination of inter-segment revenue. The amount eliminated attributable to Ports and related services is HK\$59 million (2009 - HK\$25 million), Property and hotels is HK\$310 million (2009 - HK\$307 million), Finance & Investments is HK\$14 million (2009 - HK\$7 million), Hutchison Telecommunications Hong Kong Holdings is HK\$123 million (2009 - HK\$165 million) and Others is HK\$641 million (2009 - HK\$538 million).

## 5 Operating segment information (continued)

The following is an analysis of the Group's revenue and results by operating segment:

	Revenue							
	Company and Subsidiaries	Associates and JCE	2010 Total		Company and Subsidiaries	Associates and JCE	2009 Total	
	HK\$ millions	HK\$ millions	HK\$ millions	% <sup>(a)</sup>	HK\$ millions	HK\$ millions	HK\$ millions	% <sup>(a)</sup>
<b>ESTABLISHED BUSINESSES</b>								
Ports and related services	32,720	5,008	37,728	14%	29,492	3,935	33,427	14%
Property and hotels	5,682	10,477	16,159	6%	5,233	8,679	13,912	6%
Retail	102,014	21,163	123,177	47%	96,552	19,546	116,098	48%
Cheung Kong Infrastructure	2,997	15,268	18,265	7%	2,404	12,576	14,980	6%
Husky Energy	–	45,213	45,213	17%	–	35,808	35,808	15%
Finance & Investments	1,456	411	1,867	1%	2,152	363	2,515	1%
Hutchison Telecommunications Hong Kong Holdings	9,880	–	9,880	4%	8,449	–	8,449	3%
Hutchison Asia Telecommunications	2,486	–	2,486	1%	1,855	–	1,855	1%
Telecommunications - Israel Operations	–	–	–	–	9,890	–	9,890	4%
Others	4,122	2,820	6,942	3%	3,589	2,436	6,025	2%
Subtotal - Established businesses	161,357	100,360	261,717	100%	159,616	83,343	242,959	100%
<b>TELECOMMUNICATIONS - 3 Group</b>	47,823	16,382	64,205		49,192	8,398	57,590	
	209,180	116,742	325,922		208,808	91,741	300,549	

## Notes to the Accounts

### 5 Operating segment information (continued)

	EBIT (LBIT) <sup>(b)</sup>							
	Company and Subsidiaries	Associates and JCE	2010 Total		Company and Subsidiaries	Associates and JCE	2009 Total	
	HK\$ millions	HK\$ millions	HK\$ millions	% <sup>(a)</sup>	HK\$ millions	HK\$ millions	HK\$ millions	% <sup>(a)</sup>
<b>ESTABLISHED BUSINESSES</b>								
Ports and related services <sup>(c)</sup>	9,723	1,887	11,610	30%	9,025	1,381	10,406	28%
Property and hotels	3,189	5,805	8,994	23%	2,960	3,470	6,430	17%
Retail	6,388	1,478	7,866	20%	4,553	1,139	5,692	15%
Cheung Kong Infrastructure	1,077	7,377	8,454	21%	795	6,110	6,905	19%
Husky Energy	–	3,073	3,073	8%	–	3,246	3,246	9%
Finance & Investments <sup>(d)</sup>	757	395	1,152	3%	3,729	350	4,079	11%
Hutchison Telecommunications Hong Kong Holdings	1,111	(21)	1,090	3%	708	(16)	692	2%
Hutchison Asia Telecommunications <sup>(e)</sup>	(2,688)	–	(2,688)	-7%	(2,681)	–	(2,681)	-7%
Telecommunications – Israel Operations	–	–	–	–	2,482	–	2,482	6%
Others	(669)	327	(342)	-1%	(406)	261	(145)	–
<b>EBIT – Established businesses<sup>(b)</sup></b>	<b>18,888</b>	<b>20,321</b>	<b>39,209</b>	<b>100%</b>	<b>21,165</b>	<b>15,941</b>	<b>37,106</b>	<b>100%</b>
<b>TELECOMMUNICATIONS – 3 Group<sup>(f)</sup></b>								
EBIT before the following:	19,004	7,621	26,625		14,361	3,121	17,482	
Telecommunications CACS	(13,580)	(4,327)	(17,907)		(14,850)	(2,456)	(17,306)	
EBIT (LBIT) before depreciation and amortisation and the following non-cash items (see note 33(e)):	5,424	3,294	8,718		(489)	665	176	
Depreciation	(6,827)	(1,394)	(8,221)		(7,183)	(576)	(7,759)	
Amortisation of licence fees and other rights	(552)	(771)	(1,323)		(840)	(499)	(1,339)	
One-time gain arising from a revised 3 UK network sharing arrangement, net of provisions <sup>(g)</sup>	2,268	–	2,268		–	–	–	
One-time gain with reference to the assignment of telecommunications licence to 3 Italy <sup>(h)</sup>	1,489	–	1,489		–	–	–	
<b>EBIT (LBIT) – Telecommunications – 3 Group<sup>(b)</sup></b>	<b>1,802</b>	<b>1,129</b>	<b>2,931</b>		<b>(8,512)</b>	<b>(410)</b>	<b>(8,922)</b>	
Change in fair value of investment properties	855	3,343	4,198		1,117	546	1,663	
Profit on disposal of investments (see note 6)	–	–	–		12,472	–	12,472	
<b>EBIT</b>	<b>21,545</b>	<b>24,793</b>	<b>46,338</b>		<b>26,242</b>	<b>16,077</b>	<b>42,319</b>	
Group's share of the following income statement items of associated companies and jointly controlled entities:								
Interest and other finance costs	–	(3,830)	(3,830)		–	(3,412)	(3,412)	
Current tax	–	(3,015)	(3,015)		–	(4,865)	(4,865)	
Deferred tax	–	(2,099)	(2,099)		–	1,267	1,267	
Non-controlling interests	–	2	2		–	–	–	
	<b>21,545</b>	<b>15,851</b>	<b>37,396</b>		<b>26,242</b>	<b>9,067</b>	<b>35,309</b>	



## 5 Operating segment information (continued)

	Depreciation and amortisation					
	Company and Subsidiaries	Associates and JCE	2010 Total	Company and Subsidiaries	Associates and JCE	2009 Total
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
<b>ESTABLISHED BUSINESSES</b>						
Ports and related services	3,314	647	3,961	3,056	544	3,600
Property and hotels	283	149	432	269	145	414
Retail	1,809	406	2,215	1,918	376	2,294
Cheung Kong Infrastructure	142	2,411	2,553	127	2,012	2,139
Husky Energy	–	5,914	5,914	–	5,893	5,893
Finance & Investments	63	–	63	66	–	66
Hutchison Telecommunications Hong Kong Holdings	1,080	1	1,081	1,296	2	1,298
Hutchison Asia Telecommunications	795	–	795	572	–	572
Telecommunications - Israel Operations	–	–	–	855	–	855
Others	67	127	194	76	69	145
Subtotal - Established businesses	7,553	9,655	17,208	8,235	9,041	17,276
<b>TELECOMMUNICATIONS - 3 Group</b>	7,379	2,165	9,544	8,023	1,075	9,098
	14,932	11,820	26,752	16,258	10,116	26,374

	Capital expenditure			
	Fixed assets, investment properties and leasehold land	Telecommunications licences	Brand names and other rights	2010 Total
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
<b>ESTABLISHED BUSINESSES</b>				
Ports and related services	6,726	–	–	6,726
Property and hotels	127	–	–	127
Retail	1,791	–	–	1,791
Cheung Kong Infrastructure	70	–	–	70
Husky Energy	–	–	–	–
Finance & Investments	8	–	–	8
Hutchison Telecommunications Hong Kong Holdings	1,118	–	18	1,136
Hutchison Asia Telecommunications	2,411	–	70	2,481
Telecommunications - Israel Operations	–	–	–	–
Others	111	–	–	111
Subtotal - Established businesses	12,362	–	88	12,450
<b>TELECOMMUNICATIONS - 3 Group</b> <sup>(9)</sup>	9,375	146	373	9,894
	21,737	146	461	22,344

## Notes to the Accounts

### 5 Operating segment information (continued)

	Capital expenditure			
	Fixed assets, investment properties and leasehold land	Telecom- munications licences	Brand names and other rights	2009 Total
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
<b>ESTABLISHED BUSINESSES</b>				
Ports and related services	4,970	—	—	4,970
Property and hotels	54	—	—	54
Retail	1,072	—	—	1,072
Cheung Kong Infrastructure	139	—	—	139
Husky Energy	—	—	—	—
Finance & Investments	19	—	—	19
Hutchison Telecommunications Hong Kong Holdings	1,042	—	69	1,111
Hutchison Asia Telecommunications	2,759	—	—	2,759
Telecommunications - Israel Operations	1,134	—	—	1,134
Others	59	—	—	59
Subtotal - Established businesses	11,248	—	69	11,317
<b>TELECOMMUNICATIONS - 3 Group<sup>(9)</sup></b>	7,834	—	425	8,259
	19,082	—	494	19,576

	Total assets							
	Company and Subsidiaries		Investments in associated companies and interests in joint ventures	2010 Total assets	Company and Subsidiaries		Investments in associated companies and interests in joint ventures	2009 Total assets
	Segment assets <sup>(h)</sup>	Deferred tax assets			Segment assets <sup>(h)</sup>	Deferred tax assets		
HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	
<b>ESTABLISHED BUSINESSES</b>								
Ports and related services	96,734	172	13,892	110,798	96,854	145	13,129	110,128
Property and hotels	50,732	117	24,737	75,586	49,998	138	23,767	73,903
Retail	45,254	680	5,239	51,173	47,319	937	5,014	53,270
Cheung Kong Infrastructure	14,303	9	56,146	70,458	19,118	7	39,065	58,190
Husky Energy	—	—	43,493	43,493	—	—	39,987	39,987
Finance & Investments	110,007	—	794	110,801	91,528	—	828	92,356
Hutchison Telecommunications Hong Kong Holdings	16,783	369	265	17,417	16,355	369	272	16,996
Hutchison Asia Telecommunications	18,011	—	—	18,011	21,436	—	—	21,436
Telecommunications - Israel Operations	—	—	—	—	—	—	—	—
Others	9,252	10	2,065	11,327	9,081	7	1,891	10,979
Subtotal - Established businesses	361,076	1,357	146,631	509,064	351,689	1,603	123,953	477,245
<b>TELECOMMUNICATIONS - 3 Group<sup>(9)</sup></b>	186,436	12,748	12,929	212,113	188,735	13,054	11,331	213,120
	547,512	14,105	159,560	721,177	540,424	14,657	135,284	690,365

## 5 Operating segment information (continued)

	Total liabilities							
	Segment liabilities <sup>(d)</sup>	Current & non-current borrowings <sup>(k)</sup> and other non-current liabilities	Current & deferred tax liabilities	2010 Total liabilities	Segment liabilities <sup>(d)</sup>	Current & non-current borrowings <sup>(k)</sup> and other non-current liabilities	Current & deferred tax liabilities	2009 Total liabilities
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
<b>ESTABLISHED BUSINESSES</b>								
Ports and related services	17,542	41,865	6,449	65,856	15,383	43,988	6,323	65,694
Property and hotels	1,872	693	6,558	9,123	1,666	732	6,209	8,607
Retail	21,381	6,328	973	28,682	20,393	6,978	685	28,056
Cheung Kong Infrastructure	1,945	8,489	1,053	11,487	1,558	7,871	1,041	10,470
Husky Energy	–	–	–	–	–	–	–	–
Finance & Investments	3,006	85,673	793	89,472	2,990	80,416	334	83,740
Hutchison Telecommunications Hong Kong Holdings	3,990	4,175	198	8,363	3,271	4,991	140	8,402
Hutchison Asia Telecommunications	4,339	2,622	584	7,545	4,062	2,661	1,374	8,097
Telecommunications – Israel Operations	–	–	–	–	–	–	–	–
Others	1,757	412	233	2,402	1,796	320	216	2,332
Subtotal – Established businesses	55,832	150,257	16,841	222,930	51,119	147,957	16,322	215,398
<b>TELECOMMUNICATIONS – 3 Group</b>	26,759	118,437	349	145,545	24,346	130,427	282	155,055
	82,591	268,694	17,190	368,475	75,465	278,384	16,604	370,453

Additional disclosures by geographical location are shown below:

	Revenue							
	Company and Subsidiaries	Associates and JCE	2010 Total		Company and Subsidiaries	Associates and JCE	2009 Total	
	HK\$ millions	HK\$ millions	HK\$ millions	%	HK\$ millions	HK\$ millions	HK\$ millions	%
Hong Kong	45,618	12,839	58,457	18%	40,900	10,589	51,489	17%
Mainland China	25,839	13,436	39,275	12%	21,293	12,991	34,284	11%
Asia and Australia	20,370	22,511	42,881	13%	31,597	12,478	44,075	15%
Europe	109,887	22,273	132,160	41%	108,837	19,455	128,292	43%
Americas and others	7,466	45,683	53,149	16%	6,181	36,228	42,409	14%
	209,180	116,742	325,922	100%	208,808	91,741	300,549	100%

## Notes to the Accounts

### 5 Operating segment information (continued)

	EBIT (LBIT) <sup>(b)</sup>							
	Company and Subsidiaries	Associates and JCE	2010 Total		Company and Subsidiaries	Associates and JCE	2009 Total	
	HK\$ millions	HK\$ millions	HK\$ millions	%	HK\$ millions	HK\$ millions	HK\$ millions	%
Hong Kong	6,180	5,556	11,736	25%	4,710	4,607	9,317	22%
Mainland China	6,012	5,016	11,028	24%	5,037	5,006	10,043	24%
Asia and Australia	1,271	4,801	6,072	13%	4,686	765	5,451	13%
Europe	5,540	2,965	8,505	19%	(3,843)	1,906	(1,937)	-5%
Americas and others	1,687	3,112	4,799	10%	2,063	3,247	5,310	13%
Change in fair value of investment properties	855	3,343	4,198	9%	1,117	546	1,663	4%
Profit on disposal of investments (see note 6)	-	-	-	-	12,472	-	12,472	29%
<b>EBIT</b>	<b>21,545</b>	<b>24,793</b>	<b>46,338</b>	<b>100%</b>	<b>26,242</b>	<b>16,077</b>	<b>42,319</b>	<b>100%</b>
Group's share of the following income statement items of associated companies and jointly controlled entities:								
Interest and other finance costs	-	(3,830)	(3,830)		-	(3,412)	(3,412)	
Current tax	-	(3,015)	(3,015)		-	(4,865)	(4,865)	
Deferred tax	-	(2,099)	(2,099)		-	1,267	1,267	
Non-controlling interests	-	2	2		-	-	-	
	<b>21,545</b>	<b>15,851</b>	<b>37,396</b>		<b>26,242</b>	<b>9,067</b>	<b>35,309</b>	

#### Capital expenditure<sup>(c)</sup>

	Fixed assets, investment properties and leasehold land	Telecommunications licences	Brand names and other rights	2010 Total
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
Hong Kong	1,881	-	14	1,895
Mainland China	1,587	-	-	1,587
Asia and Australia	3,698	-	73	3,771
Europe	12,855	146	373	13,374
Americas and others	1,716	-	1	1,717
	<b>21,737</b>	<b>146</b>	<b>461</b>	<b>22,344</b>

## 5 Operating segment information (continued)

	Capital expenditure <sup>(a)</sup>			
	Fixed assets, investment properties and leasehold land	Telecom- munications licences	Brand names and other rights	2009 Total
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
Hong Kong	1,380	—	69	1,449
Mainland China	922	—	—	922
Asia and Australia	5,229	—	—	5,229
Europe	9,942	—	425	10,367
Americas and others	1,609	—	—	1,609
	19,082	—	494	19,576

	Total assets							
	Company and Subsidiaries		Investments in associated companies and interests in joint ventures	2010 Total assets	Company and Subsidiaries		Investments in associated companies and interests in joint ventures	2009 Total assets
	Segment assets <sup>(b)</sup>	Deferred tax assets			Segment assets <sup>(b)</sup>	Deferred tax assets		
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
Hong Kong	100,421	743	31,869	133,033	99,449	866	32,348	132,663
Mainland China	54,001	156	29,272	83,429	43,767	15	26,402	70,184
Asia and Australia	46,816	205	27,571	74,592	40,995	71	23,296	64,362
Europe	271,801	12,914	21,642	306,357	267,766	13,616	8,742	290,124
Americas and others	74,473	87	49,206	123,766	88,447	89	44,496	133,032
	547,512	14,105	159,560	721,177	540,424	14,657	135,284	690,365

- (a) The percentages shown represent the contributions to total revenues and EBIT of established businesses.
- (b) Earnings (losses) before interest expense and tax ("EBIT" or "LBIT") represents the EBIT (LBIT) of the Company and subsidiary companies as well as the Group's share of the EBIT (LBIT) of associated companies and jointly controlled entities. EBIT (LBIT) is defined as earnings (losses) before interest expense and other finance costs and tax. Information concerning EBIT (LBIT) has been included in the Group's financial information and consolidated financial statements and is used by many industries and investors as one measure of profit (loss) from operations. The Group considers EBIT (LBIT) to be an important performance measure which is used in the Group's internal financial and management reporting to monitor business performance. EBIT (LBIT) is therefore presented as a measure of segment profit or loss in accordance with HKFRS 8. EBIT (LBIT) is not a measure of financial performance under generally accepted accounting principles in Hong Kong and the EBIT (LBIT) measures used by the Group may not be comparable to other similarly titled measures of other companies. EBIT (LBIT) should not necessarily be construed as an alternative to profit (loss) from operations as determined in accordance with generally accepted accounting principles in Hong Kong.

"EBIT - Established businesses" and "EBIT (LBIT) - Telecommunications - 3 Group" are presented before the change in fair value of investment properties and profit (loss) on disposal of investments.

- (c) Included in EBIT of Ports and related services in 2010 are valuation gains totalling HK\$550 million in relation to an available-for-sale investment. These gains were previously recorded directly into reserves but are currently recognised in this year's income statement as a result of the investment becoming an associated company in the year (see note 1(b)).

## Notes to the Accounts

### 5 Operating segment information (continued)

- (d) Included in EBIT of Finance & Investments in 2009 is a foreign exchange gain of HK\$930 million arising from the repayment of non-Hong Kong dollar loans from a jointly controlled entity.
- (e) Included in EBIT of Hutchison Asia Telecommunications in 2010 are contributions from certain suppliers amounting to HK\$669 million (2009 - HK\$155 million).
- (f) Included in EBIT (LBIT) of Telecommunications - 3 Group in 2010 are a one-time net gain of HK\$2,268 million arising from a revised 3 UK network sharing arrangement whereby 3 UK received the right of use of approximately 3,000 cell sites, free of acquisition and future operating costs, for a gain of HK\$6,010 million, partially offset by one-time provisions of HK\$3,742 million mainly related to the restructuring of 3 UK's network infrastructure, and a one-time gain with reference to the assignment of two blocks of 5MHz of 1,800MHz spectrum to 3 Italy.
- (g) Included in capital expenditures of Telecommunications - 3 Group in 2010 is the effect of foreign exchange translation of overseas subsidiaries' fixed assets balances at 31 December 2010 which has an effect of decreasing total expenditure by HK\$604 million (2009 - increasing total expenditure by HK\$289 million).
- (h) Segment assets comprise fixed assets, investment properties, leasehold land, telecommunications licences, goodwill, brand names and other rights, other non-current assets, liquid funds and other listed investments, cash and cash equivalents and other current assets. Included in segment assets presented by geographical location are non-current assets (excluding financial instruments, deferred tax assets, post-employment benefits assets and assets from insurance contracts) for Hong Kong, Mainland China, Asia and Australia, Europe, and Americas and others of HK\$79,214 million (2009 - HK\$78,867 million), HK\$25,013 million (2009 - HK\$24,418 million), HK\$21,843 million (2009 - HK\$19,977 million), HK\$205,044 million (2009 - HK\$214,950 million) and HK\$16,068 million (2009 - HK\$16,453 million) respectively.
- (i) Included in total assets of Telecommunications - 3 Group is an unrealised foreign currency exchange loss arising in 2010 of HK\$8,086 million (2009 - gain of HK\$8,408 million) from the translation of overseas subsidiaries accounts to Hong Kong dollars with an offsetting amount recorded in exchange reserve.
- (j) Segment liabilities comprise trade and other payables and pension obligations.
- (k) Current and non-current borrowings comprise bank and other debts and interest bearing loans from non-controlling shareholders.

### 6 Profit on disposal of investments

	2010 HK\$ millions	2009 HK\$ millions
<b>ESTABLISHED BUSINESSES</b>		
Gain on disposal of equity interest in Partner Communications Company Limited	-	7,392
Gain on disposal of equity interest in three power plants in Mainland China	-	847
Profit on disposal of certain telecommunications tower assets in Indonesia	-	592
<b>TELECOMMUNICATIONS - 3 Group</b>		
Gain on merger of 3 Australia with Vodafone's Australian operations	-	3,641
	-	12,472

## 7 Directors' emoluments

Directors' emoluments comprise payments to directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The emoluments of each of the directors of the Company excludes amounts received from the Company's listed subsidiaries and paid to the Company. The amounts paid to each director for both 2010 and 2009 are as below (also see Report of the Directors):

Name of directors	2010						Total emoluments HK\$ millions
	Fees HK\$ millions	Basic salaries, allowances and benefits- in-kind HK\$ millions	Bonuses HK\$ millions	Provident fund contributions HK\$ millions	Inducement or compensation fees HK\$ millions		
LI Ka-shing <sup>(a) (f)</sup>	0.05	–	–	–	–	0.05	
LI Tzar Kuoi, Victor							
<i>Paid by the Company</i>	0.12	4.44	38.48	–	–	43.04	
<i>Paid by Cheung Kong Infrastructure</i>	0.07	–	13.33	–	–	13.40	
<i>Paid to the Company</i>	(0.07)	–	–	–	–	(0.07)	
	0.12	4.44	51.81	–	–	56.37	
FOK Kin-ning, Canning <sup>(b)</sup>	0.12	10.29	141.10	2.13	–	153.64	
CHOW WOO Mo Fong, Susan <sup>(b)</sup>	0.12	7.69	32.00	1.55	–	41.36	
Frank John SIXT <sup>(b)</sup>	0.12	7.62	30.94	0.68	–	39.36	
LAI Kai Ming, Dominic <sup>(b)</sup>	0.12	5.14	30.00	0.98	–	36.24	
KAM Hing Lam <sup>(b)</sup>							
<i>Paid by the Company</i>	0.12	2.25	6.98	–	–	9.35	
<i>Paid by Cheung Kong Infrastructure</i>	0.07	4.20	5.82	–	–	10.09	
<i>Paid to the Company</i>	(0.07)	(4.20)	–	–	–	(4.27)	
	0.12	2.25	12.80	–	–	15.17	
George Colin MAGNUS <sup>(d)</sup>							
<i>Paid by the Company</i>	0.12	–	–	–	–	0.12	
<i>Paid by Cheung Kong Infrastructure</i>	0.07	–	–	–	–	0.07	
	0.19	–	–	–	–	0.19	
William SHURNIAK <sup>(d) (e)</sup>	0.25	–	–	–	–	0.25	
Michael David KADOORIE <sup>(c)</sup>	0.12	–	–	–	–	0.12	
Holger KLUGE <sup>(c) (e) (f)</sup>	0.31	–	–	–	–	0.31	
Margaret LEUNG KO May Yee <sup>(c)</sup>	0.12	–	–	–	–	0.12	
WONG Chung Hin <sup>(c) (e) (f)</sup>	0.31	–	–	–	–	0.31	
<b>Total</b>	<b>2.07</b>	<b>37.43</b>	<b>298.65</b>	<b>5.34</b>	<b>–</b>	<b>343.49</b>	

- (a) No remuneration was paid to Mr Li Ka-shing during the year other than a director's fee of HK\$50,000 (2009 - HK\$50,000) which he paid to Cheung Kong (Holdings) Limited.
- (b) Directors' fees received by these directors from the Company's listed subsidiaries during the period they served as executive directors or non-executive directors that have been paid to the Company are not included in the amounts above.
- (c) Independent non-executive directors. The total emoluments of the independent non-executive directors of the Company are HK\$860,000 (2009 - HK\$860,000).
- (d) Non-executive directors.
- (e) Members of the Audit Committee.
- (f) Members of the Remuneration Committee.
- (g) Appointed on 22 May 2009.
- (h) Retired on 21 May 2009.

## Notes to the Accounts

### 7 Directors' emoluments (continued)

2009

Name of directors	Fees HK\$ millions	Basic salaries, allowances and benefits- in-kind HK\$ millions	Bonuses HK\$ millions	Provident fund contributions HK\$ millions	Inducement or compensation fees HK\$ millions	Total emoluments HK\$ millions
LI Ka-shing <sup>(a) (f)</sup>	0.05	—	—	—	—	0.05
LI Tzar Kuoi, Victor						
<i>Paid by the Company</i>	0.12	4.44	30.78	—	—	35.34
<i>Paid by Cheung Kong Infrastructure</i>	0.07	—	11.11	—	—	11.18
<i>Paid to the Company</i>	(0.07)	—	—	—	—	(0.07)
	0.12	4.44	41.89	—	—	46.45
FOK Kin-ning, Canning <sup>(b)</sup>	0.12	10.22	111.81	2.13	—	124.28
CHOW WOO Mo Fong, Susan <sup>(b)</sup>	0.12	7.65	26.68	1.54	—	35.99
Frank John SIXT <sup>(b)</sup>	0.18	7.63	25.53	0.68	—	34.02
LAI Kai Ming, Dominic <sup>(b)</sup>	0.12	5.15	24.94	0.98	—	31.19
KAM Hing Lam <sup>(b)</sup>						
<i>Paid by the Company</i>	0.12	2.25	5.81	—	—	8.18
<i>Paid by Cheung Kong Infrastructure</i>	0.07	4.20	4.85	—	—	9.12
<i>Paid to the Company</i>	(0.07)	(4.20)	—	—	—	(4.27)
	0.12	2.25	10.66	—	—	13.03
George Colin MAGNUS <sup>(d)</sup>						
<i>Paid by the Company</i>	0.12	—	—	—	—	0.12
<i>Paid by Cheung Kong Infrastructure</i>	0.07	—	—	—	—	0.07
	0.19	—	—	—	—	0.19
William SHURNIAK <sup>(d) (e)</sup>	0.25	—	—	—	—	0.25
Michael David KADOORIE <sup>(c)</sup>	0.12	—	—	—	—	0.12
Holger KLUGE <sup>(c) (e) (f)</sup>	0.31	—	—	—	—	0.31
Margaret LEUNG KO May Yee <sup>(c) (g)</sup>	0.07	—	—	—	—	0.07
OR Ching Fai, Raymond <sup>(c) (h)</sup>	0.05	—	—	—	—	0.05
WONG Chung Hin <sup>(c) (e) (f)</sup>	0.31	—	—	—	—	0.31
<b>Total</b>	<b>2.13</b>	<b>37.34</b>	<b>241.51</b>	<b>5.33</b>	<b>—</b>	<b>286.31</b>

The Company does not have an option scheme for the purchase of ordinary shares in the Company. None of the directors have received any share-based payments from the Company or any of its subsidiaries during the year (2009 - nil).

In 2010, the five individuals whose emoluments were the highest for the year were five directors of the Company. In 2009, the five individuals whose emoluments were the highest for the year were four directors of the Company and one director of a subsidiary of the Company. The remuneration of the director of the subsidiary company consisted of basic salary, allowances and benefits-in-kind - HK\$6.03 million; provident fund contribution - HK\$0.44 million; and bonus - HK\$24.95 million.



## 8 Interest and other finance costs

	2010 HK\$ millions	2009 HK\$ millions
Bank loans and overdrafts	1,474	1,907
Other loans repayable within 5 years	59	98
Other loans not wholly repayable within 5 years	18	20
Notes and bonds repayable within 5 years	2,968	3,449
Notes and bonds not wholly repayable within 5 years	3,028	3,175
	<b>7,547</b>	<b>8,649</b>
Interest bearing loans from non-controlling shareholders repayable within 5 years	245	275
Interest bearing loans from non-controlling shareholders not wholly repayable within 5 years	57	74
	<b>7,849</b>	<b>8,998</b>
Amortisation of loan facilities fees and premiums or discounts relating to borrowings	243	347
Notional non-cash interest accretion <sup>(a)</sup>	470	356
Other finance costs	72	188
	<b>8,634</b>	<b>9,889</b>
Less: interest capitalised <sup>(b)</sup>	(158)	(276)
	<b>8,476</b>	<b>9,613</b>

(a) Notional non-cash interest accretion represents notional adjustments to accrete the carrying amount of certain obligations recognised in the statement of financial position such as asset retirement obligation to the present value of the estimated future cash flows expected to be required for their settlement in the future.

(b) Borrowing costs have been capitalised at various applicable rates ranging from 0.3% to 6.0% per annum (2009 - 0.3% to 6.0% per annum).

## Notes to the Accounts

### 9 Tax

	Current tax	Deferred tax	2010 Total	Current tax	Deferred tax	2009 Total
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
Hong Kong	581	978	1,559	529	(143)	386
Outside Hong Kong	1,912	(131)	1,781	4,059	51	4,110
	<b>2,493</b>	<b>847</b>	<b>3,340</b>	4,588	(92)	4,496

Hong Kong profits tax has been provided for at the rate of 16.5% (2009 - 16.5%) on the estimated assessable profits less estimated available tax losses. Tax outside Hong Kong has been provided for at the applicable rate on the estimated assessable profits less estimated available tax losses.

The differences between the Group's expected tax charge (credit), calculated at the domestic rates applicable to the country concerned, and the Group's tax charge (credit) for the years were as follows:

	Established businesses	Telecom- munications - 3 Group	2010 Total
	HK\$ millions	HK\$ millions	HK\$ millions
Tax calculated at the domestic rates applicable in the country concerned	2,687	(334)	2,353
Tax effect of:			
Tax losses not recognised	1,636	434	2,070
Tax incentives	(540)	—	(540)
Income not subject to tax	(837)	(4)	(841)
Expenses not deductible for tax purposes	816	—	816
Recognition of previously unrecognised tax losses	(105)	—	(105)
Utilisation of previously unrecognised tax losses	(169)	(173)	(342)
Under provision in prior years	2	—	2
Deferred tax assets written off	(1)	—	(1)
Other temporary differences	(172)	94	(78)
Effect of change in tax rate	6	—	6
Total tax for the year	<b>3,323</b>	<b>17</b>	<b>3,340</b>

## 9 Tax (continued)

	Established businesses HK\$ millions	Telecom- munications - 3 Group HK\$ millions	2009 Total HK\$ millions
Tax calculated at the domestic rates applicable in the country concerned	4,215	(3,205)	1,010
Tax effect of:			
Tax losses not recognised	1,014	3,199	4,213
Tax incentives	(523)	—	(523)
Income not subject to tax	(483)	(5)	(488)
Expenses not deductible for tax purposes	946	—	946
Recognition of previously unrecognised tax losses	(711)	—	(711)
Utilisation of previously unrecognised tax losses	(38)	—	(38)
Under provision in prior years	45	—	45
Deferred tax assets written off	3	—	3
Other temporary differences	41	(5)	36
Effect of change in tax rate	3	—	3
<b>Total tax for the year</b>	<b>4,512</b>	<b>(16)</b>	<b>4,496</b>

## 10 Dividends

	2010 HK\$ millions	2009 HK\$ millions
Interim, paid of HK\$0.51 per share (2009 - HK\$0.51)	2,174	2,174
Final, proposed of HK\$1.41 per share (2009 - HK\$1.22)	6,011	5,201
	<b>8,185</b>	<b>7,375</b>

## 11 Earnings per share for profit attributable to ordinary shareholders of the Company

The calculation of earnings per share is based on profit attributable to ordinary shareholders of the Company HK\$20,038 million (2009 - HK\$13,631 million) and on 4,263,370,780 shares in issue during 2010 (2009 - 4,263,370,780 shares).

The Company has no share option scheme. Certain of the Company's subsidiary and associated companies have employee share options outstanding as at 31 December 2010. The employee share options of these subsidiary and associated companies outstanding as at 31 December 2010 did not have a dilutive effect on earnings per share.

## Notes to the Accounts

### 12 Other comprehensive income

Tax effect relating to each component of other comprehensive income:

	2010		
	Before-tax amount	Tax expense	Net-of-tax amount
	HK\$ millions	HK\$ millions	HK\$ millions
Available-for-sale investments:			
Valuation gains recognised directly in reserves	1,001	(11)	990
Valuation gains previously in reserves recognised in income statement for the year	(839)	–	(839)
Net actuarial gains of defined benefit plans	463	(129)	334
Cash flow hedges arising from forward foreign currency contracts and interest rate swap contracts:			
Gains recognised directly in reserves	52	–	52
Gains previously in reserves recognised in initial cost of non-financial items for the year	(25)	–	(25)
Losses on translating overseas subsidiaries' net assets recognised directly in reserves	(6,152)	–	(6,152)
Gains previously in reserves related to subsidiaries disposed during the year recognised in income statement for the year	(17)	–	(17)
Share of other comprehensive income of associated companies for the year	2,520	–	2,520
Share of other comprehensive income of jointly controlled entities for the year	1,841	–	1,841
	(1,156)	(140)	(1,296)

	2009		
	Before-tax amount	Tax (expense)/benefit	Net-of-tax amount
	HK\$ millions	HK\$ millions	HK\$ millions
Available-for-sale investments:			
Valuation gains recognised directly in reserves	417	(33)	384
Valuation gains previously in reserves recognised in income statement for the year	(198)	–	(198)
Net actuarial gains of defined benefit plans	31	183	214
Cash flow hedges arising from forward foreign currency contracts and interest rate swap contracts:			
Gains recognised directly in reserves	1	–	1
Losses previously in reserves recognised in initial cost of non-financial items for the year	4	–	4
Gains on translating overseas subsidiaries' net assets recognised directly in reserves	11,170	–	11,170
Gains on repayment of foreign currency loans from a jointly controlled entity previously in reserves recognised in income statement for the year	(930)	–	(930)
Gains previously in reserves related to subsidiaries disposed during the year recognised in income statement for the year	(1,909)	–	(1,909)
Others	7	(1)	6
Share of other comprehensive income of associated companies for the year	6,665	–	6,665
Share of other comprehensive income of jointly controlled entities for the year	1,547	–	1,547
	16,805	149	16,954

## 13 Fixed assets

	Land and buildings HK\$ millions	Telecom- munications network assets HK\$ millions	Other assets HK\$ millions	Total HK\$ millions
<b>Cost</b>				
At 1 January 2009	48,019	135,417	110,205	293,641
Additions	3,113	5,828	10,105	19,046
Disposals	(247)	(6,394)	(1,897)	(8,538)
Relating to subsidiaries acquired	–	–	94	94
Relating to subsidiaries disposed of	(108)	(19,399)	(4,807)	(24,314)
Revaluation upon transfer to investment properties	6	–	–	6
Transfer to other assets	(38)	(160)	(88)	(286)
Transfer between categories / investment properties / leasehold land	(472)	4,178	(3,799)	(93)
Exchange translation differences	720	6,438	3,077	10,235
At 1 January 2010	<b>50,993</b>	<b>125,908</b>	<b>112,890</b>	<b>289,791</b>
Additions	<b>3,396</b>	<b>3,321</b>	<b>14,872</b>	<b>21,589</b>
Disposals	<b>(81)</b>	<b>(8,794)</b>	<b>(6,872)</b>	<b>(15,747)</b>
Relating to subsidiaries disposed of	(1)	–	(151)	(152)
Write off for the year <sup>(a)</sup>	–	(4,959)	(565)	(5,524)
Transfer from other assets	44	–	45	89
Transfer between categories / investment properties / leasehold land	<b>(193)</b>	<b>8,932</b>	<b>(8,380)</b>	<b>359</b>
Exchange translation differences	<b>(264)</b>	<b>(4,342)</b>	<b>(3,705)</b>	<b>(8,311)</b>
At 31 December 2010	<b>53,894</b>	<b>120,066</b>	<b>108,134</b>	<b>282,094</b>
<b>Accumulated depreciation and impairment</b>				
At 1 January 2009	10,873	43,164	61,461	115,498
Charge for the year	1,105	6,795	5,924	13,824
Disposals	(232)	(5,837)	(1,684)	(7,753)
Relating to subsidiaries disposed of	(78)	(9,853)	(2,111)	(12,042)
Transfer between categories / investment properties / leasehold land	(320)	38	261	(21)
Exchange translation differences	229	2,284	1,580	4,093
At 1 January 2010	<b>11,577</b>	<b>36,591</b>	<b>65,431</b>	<b>113,599</b>
Charge for the year	<b>1,209</b>	<b>6,138</b>	<b>5,746</b>	<b>13,093</b>
Disposals	<b>(51)</b>	<b>(1,706)</b>	<b>(4,583)</b>	<b>(6,340)</b>
Relating to subsidiaries disposed of	–	–	(150)	(150)
Write off for the year <sup>(a)</sup>	–	(2,733)	(424)	(3,157)
Transfer from (to) other assets	5	–	(35)	(30)
Transfer between categories / investment properties / leasehold land	22	122	166	310
Exchange translation differences	<b>(126)</b>	<b>(446)</b>	<b>(2,510)</b>	<b>(3,082)</b>
At 31 December 2010	<b>12,636</b>	<b>37,966</b>	<b>63,641</b>	<b>114,243</b>
<b>Net book value</b>				
At 31 December 2010	<b>41,258</b>	<b>82,100</b>	<b>44,493</b>	<b>167,851</b>
At 31 December 2009	39,416	89,317	47,459	176,192
At 1 January 2009	37,146	92,253	48,744	178,143

(a) Mainly due to the decommissioning and upgrade programme undertaken pursuant to 3 UK network sharing agreement (see note 5(f)).

## Notes to the Accounts

### 13 Fixed assets (continued)

Land and buildings include projects under development in the amount of HK\$5,228 million (2009 - HK\$5,983 million).

Cost and net book value of fixed assets include HK\$120,868 million (2009 - HK\$135,425 million) and HK\$77,227 million (2009 - HK\$88,673 million) respectively, relating to 3 Group. Impairment tests were undertaken at 31 December 2010 and 31 December 2009 to assess whether the carrying value of the Group's 3G telecommunications licences and network assets were supported by the net present value of future cash flows forecast to be derived from the use of these assets for each respective business. Note 3(a) contains information about the estimates, assumptions and judgements relating to the impairment tests. The results of the tests undertaken as at 31 December 2010 and 31 December 2009 indicated that no impairment charge was necessary.

### 14 Investment properties

	2010 HK\$ millions	2009 HK\$ millions
<b>Valuation</b>		
At 1 January	42,323	41,282
Additions	94	6
Disposals	(65)	(141)
Relating to subsidiaries disposed of	(4)	-
Change in fair value of investment properties	855	1,117
Transfer from fixed assets and leasehold land	2	32
Exchange translation differences	35	27
At 31 December	<b>43,240</b>	42,323

Investment properties have been fair valued as at 31 December 2010 and 31 December 2009 by DTZ Debenham Tie Leung Limited, professional valuers, on an open market value basis.

The Group's investment properties comprise:

	2010 HK\$ millions	2009 HK\$ millions
<b>Hong Kong</b>		
Long leasehold (not less than 50 years)	17,037	16,772
Medium leasehold (less than 50 years but not less than 10 years)	25,032	24,406
<b>Outside Hong Kong</b>		
Freehold	210	210
Medium leasehold	961	935
	<b>43,240</b>	42,323

## 14 Investment properties (continued)

At 31 December, the analysis of the Group's aggregate future minimum lease payments receivable under non-cancellable operating leases is as follows:

	2010 HK\$ millions	2009 HK\$ millions
Within 1 year	2,697	2,560
After 1 year, but within 5 years	2,559	2,394
After 5 years	94	15

## 15 Leasehold land

	2010 HK\$ millions	2009 HK\$ millions
<b>Net book value</b>		
At 1 January	29,191	29,848
Additions	54	30
Disposals	–	(15)
Relating to subsidiaries disposed of	–	(9)
Revaluation upon transfer to investment properties	–	1
Amortisation for the year	(912)	(898)
Transfer to investment properties	–	(18)
Transfer from (to) fixed assets	(51)	58
Exchange translation differences	(721)	194
At 31 December	27,561	29,191

The Group's leasehold land comprises:

	2010 HK\$ millions	2009 HK\$ millions
<b>Hong Kong</b>		
Medium leasehold	9,119	9,364
<b>Outside Hong Kong</b>		
Long leasehold	1,007	1,088
Medium leasehold	17,435	18,727
Short leasehold (less than 10 years)	–	12
	27,561	29,191

## Notes to the Accounts

### 16 Telecommunications licences

	2010 HK\$ millions	2009 HK\$ millions
<b>Net book value</b>		
At 1 January	70,750	72,175
Additions	146	–
Non-cash addition (see note 5(f))	1,489	–
Relating to subsidiaries disposed of	–	(4,810)
Amortisation for the year	(390)	(633)
Exchange translation differences	(3,662)	4,018
At 31 December	68,333	70,750
<b>Cost</b>		
Accumulated amortisation and impairment	(26,410)	(27,205)
	68,333	70,750

The carrying amount of the Group's telecommunications licences with indefinite useful life in Italy and the UK is €2,650 million and £3,127 million, respectively.

In accordance with the Group's accounting policy on asset impairment (see note 2(y)), the carrying values of telecommunications licences were tested for impairment as at 31 December 2010 and 31 December 2009. Note 3(a) contains information about the estimates, assumptions and judgements relating to telecommunications licences impairment tests. The results of the tests undertaken as at 31 December 2010 and 31 December 2009 indicated no impairment charge was necessary.

### 17 Goodwill

	2010 HK\$ millions	2009 HK\$ millions
<b>Cost</b>		
At 1 January	28,858	30,436
Relating to subsidiaries acquired	–	605
Relating to increase in interests in subsidiaries	–	85
Relating to subsidiaries disposed of	–	(3,251)
Exchange translation differences	(1,526)	983
At 31 December	27,332	28,858

The carrying amount of goodwill primarily arises from the acquisition of four retail chains: Marionnaud of €645 million (2009 - €645 million), Kruidvat of €600 million (2009 - €600 million), The Perfume Shop of £140 million (2009 - £140 million), Superdrug of £78 million (2009 - £78 million), 3 Italia of €275 million (2009 - €275 million), Hutchison Telecommunications Hong Kong Holdings of HK\$3,754 million (2009 - HK\$3,754 million) and Hutchison Asia Telecommunications of HK\$1,582 million (2009 - HK\$1,527 million).

In accordance with the Group's accounting policy on asset impairment (see note 2(y)), the carrying values of goodwill were tested for impairment as at 31 December 2010 and 31 December 2009. Note 3(c) contains information about the estimates, assumptions and judgements relating to goodwill impairment tests. The results of the tests undertaken as at 31 December 2010 and 31 December 2009 indicated no impairment charge was necessary.



## 18 Brand names and other rights

	Brand names HK\$ millions	Other rights HK\$ millions	Total HK\$ millions
<b>Net book value</b>			
At 1 January 2010	2,093	5,258	7,351
Additions	–	461	461
Non-cash addition (see note 5(f))	–	6,010	6,010
Transfer from (to) other assets	1	(33)	(32)
Amortisation for the year	(12)	(525)	(537)
Write off for the year	–	(2)	(2)
Exchange translation differences	(132)	(254)	(386)
At 31 December 2010	1,950	10,915	12,865
Cost	1,981	17,059	19,040
Accumulated amortisation	(31)	(6,144)	(6,175)
	1,950	10,915	12,865

	Brand names HK\$ millions	Other rights HK\$ millions	Total HK\$ millions
<b>Net book value</b>			
At 1 January 2009	2,050	8,436	10,486
Additions	–	494	494
Transfer from other assets	–	11	11
Amortisation for the year	(11)	(892)	(903)
Write off for the year	–	(53)	(53)
Relating to subsidiaries disposed of	–	(2,866)	(2,866)
Exchange translation differences	54	128	182
At 31 December 2009	2,093	5,258	7,351
Cost	2,112	11,377	13,489
Accumulated amortisation	(19)	(6,119)	(6,138)
	2,093	5,258	7,351

The brand names as at 31 December 2010 primarily resulted from the acquisitions of Marionnaud and The Perfume Shop in 2005 and are assessed to have indefinite useful lives. The factors considered in the assessment of the useful lives include analysis of market and competitive trends, product life cycles, brand extension opportunities and management's long term strategic development.

The value of brand names acquired in 2005 was determined by an external valuer based on a royalty relief methodology, a commonly applied approach to valuing brand names, which was completed in December 2005. Brand names were tested for impairment as at 31 December 2010 and 31 December 2009 and the results of the tests indicated no impairment charge was necessary.

Other rights, which include a right of use of telecommunications network infrastructure sites, customer base relating to subsidiaries acquired, operating and service content rights, are amortised over their finite useful lives.

## Notes to the Accounts

### 19 Associated companies

	<b>31 December 2010</b>	31 December 2009	1 January 2009
	<b>HK\$ millions</b>	HK\$ millions	HK\$ millions
Unlisted shares	<b>18,947</b>	8,665	8,358
Listed shares, Hong Kong	<b>9,512</b>	9,512	9,512
Listed shares, outside Hong Kong	<b>13,021</b>	10,341	10,341
Share of undistributed post acquisition reserves	<b>49,649</b>	46,010	39,192
	<b>91,129</b>	74,528	67,403
Amounts due from associated companies	<b>14,399</b>	9,188	8,642
	<b>105,528</b>	83,716	76,045

The market value of the above listed investments at 31 December 2010 was HK\$103,714 million (2009 - HK\$100,050 million).

Particulars regarding the principal associated companies are set forth on pages 217 to 222.

The aggregate amounts of revenues, results, assets and liabilities of the Group's associated companies are as follows:

	<b>2010</b>	2009
	<b>HK\$ millions</b>	HK\$ millions
Revenue	<b>243,878</b>	207,034
Profit after tax	<b>15,502</b>	10,167
Non-current assets	<b>575,273</b>	446,048
Current assets	<b>73,732</b>	63,779
Total assets	<b>649,005</b>	509,827
Non-current liabilities	<b>268,509</b>	181,806
Current liabilities	<b>118,208</b>	90,482
Total liabilities	<b>386,717</b>	272,288

## 19 Associated companies (continued)

The Group's share of the revenues, expenses and results of associated companies are as follows:

	2010 HK\$ millions	2009 HK\$ millions
Revenue	62,282	48,836
Expense	(42,860)	(31,663)
EBITDA <sup>(a)</sup>	19,422	17,173
Depreciation and amortisation	(8,507)	(7,909)
Change in fair value of investment properties	10	5
EBIT <sup>(b)</sup>	10,925	9,269
Interest and other finance costs	(2,562)	(2,484)
Current tax	(1,296)	(3,542)
Deferred tax	(600)	2,147
Non-controlling interests	2	–
Profit after tax	6,469	5,390

(a) EBITDA is defined as earnings before interest expense and other finance costs, tax, depreciation and amortisation, and includes profit on disposal of investments and other earnings of a cash nature but excludes change in fair value of investment properties.

(b) EBIT is defined as earnings before interest expense and other finance costs and tax.

## 20 Interests in joint ventures

	2010 HK\$ millions	2009 HK\$ millions
<b>Jointly controlled entities</b>		
Unlisted shares	43,456	41,935
Share of undistributed post acquisition reserves	4,815	(1,923)
	48,271	40,012
Amounts due from jointly controlled entities	5,761	11,556
	54,032	51,568

There are no material contingent liabilities relating to the Group's interests in the joint ventures, save as for those disclosed in note 36.

Particulars regarding the principal jointly controlled entities are set forth on pages 217 to 222.

## Notes to the Accounts

### 20 Interests in joint ventures (continued)

The aggregate amounts of revenues, results, assets and liabilities related to the Group's interests in its jointly controlled entities are as follows:

	2010 HK\$ millions	2009 HK\$ millions
Revenue	117,704	90,691
Profit after tax	27,989	9,156
Non-current assets	111,363	151,887
Current assets	112,753	71,946
Total assets	224,116	223,833
Non-current liabilities	70,454	69,509
Current liabilities	62,787	71,585
Total liabilities	133,241	141,094

The Group's share of the revenues, expenses, results and capital commitments of jointly controlled entities are as follows:

	2010 HK\$ millions	2009 HK\$ millions
Revenue	54,460	42,905
Expense	(40,612)	(34,431)
EBITDA <sup>(a)</sup>	13,848	8,474
Depreciation and amortisation	(3,313)	(2,207)
Change in fair value of investment properties	3,333	541
EBIT <sup>(b)</sup>	13,868	6,808
Interest and other finance costs	(1,268)	(928)
Current tax	(1,719)	(1,323)
Deferred tax	(1,499)	(880)
Profit after tax	9,382	3,677
Capital commitments	248	977

(a) EBITDA is defined as earnings before interest expense and other finance costs, tax, depreciation and amortisation, and includes profit on disposal of investments and other earnings of a cash nature but excludes change in fair value of investment properties.

(b) EBIT is defined as earnings before interest expense and other finance costs and tax.

## 21 Deferred tax

	2010 HK\$ millions	2009 HK\$ millions
Deferred tax assets	14,105	14,657
Deferred tax liabilities	14,290	13,355
Net deferred tax assets (liabilities)	(185)	1,302

Movements in net deferred tax assets (liabilities) are summarised as follows:

	2010 HK\$ millions	2009 HK\$ millions
At 1 January	1,302	(368)
Relating to subsidiaries acquired	–	(2)
Relating to subsidiaries disposed of	5	506
Transfer from (to) current tax	(236)	158
Net credit (charge) to other comprehensive income	(140)	149
Net credit (charge) to the income statement		
Unused tax losses	(168)	246
Accelerated depreciation allowances	(327)	(349)
Fair value adjustments arising from acquisitions	162	325
Revaluation of investment properties and other investments	(135)	(181)
Withholding tax on undistributed earnings	47	(152)
Other temporary differences	(426)	203
Exchange translation differences	(269)	767
At 31 December	(185)	1,302

Analysis of net deferred tax assets (liabilities):

	2010 HK\$ millions	2009 HK\$ millions
Unused tax losses	15,290	16,034
Accelerated depreciation allowances	(4,515)	(4,121)
Fair value adjustments arising from acquisitions	(4,708)	(4,874)
Revaluation of investment properties and other investments	(4,635)	(4,486)
Withholding tax on undistributed earnings	(305)	(361)
Other temporary differences	(1,312)	(890)
	(185)	1,302

During the year, no deferred tax asset has been recognised for the losses of 3 Group (2009 - nil).

The Group is subject to income taxes in numerous jurisdictions and significant judgement is required in determining the worldwide provision for income taxes. To the extent that dividends distributed from investments in subsidiaries, branches and associates, and interests in joint ventures are expected to result in additional taxes, appropriate amounts have been provided for. No deferred tax has been provided for the temporary differences arising from undistributed profits of these companies to the extent that the undistributed profits are considered permanently employed in their businesses and it is probable that such temporary differences will not reverse in the foreseeable future.

The deferred tax assets and liabilities are offset when there is a legally enforceable right to set off and when the deferred income taxes relate to the same fiscal authority. The amounts shown in the consolidated statement of financial position are determined after appropriate offset.

## Notes to the Accounts

### 21 Deferred tax (continued)

At 31 December 2010, the Group has recognised accumulated deferred tax assets amounting to HK\$14,105 million (2009 - HK\$14,657 million) of which HK\$12,748 million (2009 - HK\$13,054 million) relates to 3 Group.

Note 3(e) contains information about the estimates, assumptions and judgements relating to the recognition of deferred tax assets for unused tax losses carried forward.

The potential net deferred tax asset mainly arising from accumulated unutilised tax losses, after appropriate offsetting, which has not been provided for in the accounts amounted to HK\$33,551 million at 31 December 2010 (2009 - HK\$37,033 million). Unrecognised tax losses of HK\$85,999 million (2009 - HK\$84,004 million) can be carried forward indefinitely. The remaining HK\$44,873 million (2009 - HK\$62,341 million) expires in the following years:

	2010 HK\$ millions	2009 HK\$ millions
In the first year	9,221	21,179
In the second year	13,562	8,565
In the third year	13,598	11,228
In the fourth year	2,734	11,734
In the fifth to tenth years inclusive	5,758	9,635
	<b>44,873</b>	62,341

### 22 Other non-current assets

	2010 HK\$ millions	2009 HK\$ millions
Other unlisted investments		
Loans and receivables		
Unlisted debt securities	990	1,391
Other receivables	3,876	-
	<b>4,866</b>	1,391
Available-for-sale investments		
Unlisted equity securities	1,175	1,334
Fair value hedges (see note 28(a))		
Interest rate swaps	1,776	2,561
Cross currency interest rate swaps	1,105	-
Cash flow hedges (see note 28(a))		
Interest rate swaps	15	-
Forward foreign exchange contracts	194	-
	<b>9,131</b>	5,286

The carrying value of the unlisted debt securities approximates the fair value as these investments bear floating interest rates and are repriced within one to six-month periods at the prevailing market interest rates. The weighted average effective interest rate of unlisted debt securities as at 31 December 2010 is 2.0% (2009 - 1.9%).

Unlisted equity securities where there is a history of dividends are carried at fair value based on the discounted present value of expected future dividends. The value of the remaining unlisted equity securities are not significant to the Group.

## 23 Liquid funds and other listed investments

	2010 HK\$ millions	2009 HK\$ millions
Available-for-sale investments		
Managed funds, outside Hong Kong	14,505	14,404
Listed / traded debt securities, outside Hong Kong	3,036	2,962
Listed equity securities, Hong Kong	913	407
Listed equity securities, outside Hong Kong	5,262	4,781
	<b>23,716</b>	<b>22,554</b>
Loans and receivables		
Long term deposits	36	54
Financial assets at fair value through profit or loss	833	605
	<b>24,585</b>	<b>23,213</b>

Components of managed funds, outside Hong Kong are as follows:

	2010 HK\$ millions	2009 HK\$ millions
Listed debt securities	14,281	14,138
Cash and cash equivalents	224	266
	<b>14,505</b>	<b>14,404</b>

Included in listed / traded debt securities outside Hong Kong is a principal amount of US\$103 million notes issued by listed associated company, Husky Energy. Of which, US\$78 million and US\$25 million of these notes will mature in 2014 and 2019 respectively.

The fair value of the available-for-sale investments and financial assets designated as "at fair value through profit or loss" are based on quoted market prices. The market value of the liquid funds and other listed investments excluding long term deposits at 31 December 2010 was HK\$24,549 million (2009 - HK\$23,159 million).

Loans and receivables, represent long term deposits, are carried at amortised cost, which approximates their fair value as the deposits carry floating interest rates and are repriced every three months based on the prevailing market interest rates. The weighted average effective interest rate on long term deposits as at 31 December 2010 was 4.1% (2009 - 5.0%).

At 31 December, liquid funds and other listed investments are denominated in the following currencies:

	2010			2009		
	Available- for-sale investments Percentage	Loans and receivables Percentage	Financial assets at fair value through profit or loss Percentage	Available- for-sale investments Percentage	Loans and receivables Percentage	Financial assets at fair value through profit or loss Percentage
HK dollars	4%	-	-	2%	-	-
US dollars	76%	-	79%	79%	-	69%
Others	20%	100%	21%	19%	100%	31%
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Notes to the Accounts

### 23 Liquid funds and other listed investments (continued)

Listed / traded debt securities as at 31 December presented above are analysed as follows:

	2010 Percentage	2009 Percentage
<b>Credit ratings</b>		
Aaa/AAA	77%	78%
Aa1/AA+	5%	4%
Aa3/AA-	–	1%
Other investment grades	5%	5%
Unrated	13%	12%
	<b>100%</b>	<b>100%</b>
<b>Sectorial</b>		
Supranational notes	17%	38%
Government guaranteed notes	47%	32%
Government related entities issued notes	7%	12%
US Treasury notes	12%	1%
Husky Energy issued notes	5%	5%
Others	12%	12%
	<b>100%</b>	<b>100%</b>
Weighted average maturity	<b>1.1 years</b>	1.3 years
Weighted average effective yield	<b>1.42%</b>	2.19%

### 24 Cash and cash equivalents

	2010 HK\$ millions	2009 HK\$ millions
Cash at bank and in hand	<b>29,690</b>	23,472
Short term bank deposits	<b>61,962</b>	69,049
	<b>91,652</b>	92,521

The carrying amount of cash and cash equivalents approximates their fair value.



## 25 Trade and other receivables

	2010 HK\$ millions	2009 HK\$ millions
Trade receivables <sup>(a)</sup>	30,484	29,081
Less: provision for estimated impairment losses for bad debts <sup>(b)</sup>	(5,563)	(5,852)
Trade receivables - net	24,921	23,229
Other receivables and prepayments	32,112	24,481
Cash flow hedges (see note 28(a))		
Forward foreign exchange contracts	196	436
	57,229	48,146

Trade and other receivables are stated at the expected recoverable amount, net of any estimated impairment losses for bad debts where it is deemed that a receivable may not be fully recoverable.

Trade receivables exposures are managed locally in the operating units where they arise and credit limits are set as deemed appropriate for the customer. The Group has established credit policies for customers in each of its core businesses. The average credit period granted for trade receivables ranges from 30 to 45 days. The carrying amount of these assets approximates their fair value. As stated above trade receivables which are past due at the end of the reporting period are stated at the expected recoverable amount, net of provision for estimated impairment losses for bad debts. Given the profile of our customers and the Group's different types of businesses, the Group generally does not hold collateral over these balances.

The Group's five largest customers contributed less than 6% of the Group's turnover for the years ended 31 December 2010 and 2009.

(a) At 31 December, the ageing analysis of the trade receivables presented based on the invoice date, is as follows:

	2010 HK\$ millions	2009 HK\$ millions
Less than 31 days	12,629	11,147
Within 31 to 60 days	2,191	1,982
Within 61 to 90 days	841	826
Over 90 days	14,823	15,126
	30,484	29,081

## Notes to the Accounts

### 25 Trade and other receivables (continued)

- (b) As at 31 December 2010, out of the trade receivables of HK\$30,484 million (2009 - HK\$29,081 million), HK\$15,593 million (2009 - HK\$13,356 million) are impaired and it is assessed that a portion of these receivables is expected to be recoverable. The amount of the provision for estimated impairment losses for bad debts is HK\$5,563 million (2009 - HK\$5,852 million). The ageing analysis of these trade receivables is as follows:

	2010 HK\$ millions	2009 HK\$ millions
Not past due	5,353	3,096
Past due less than 31 days	2,000	1,079
Past due within 31 to 60 days	468	655
Past due within 61 to 90 days	696	459
Past due over 90 days	7,076	8,067
	<b>15,593</b>	<b>13,356</b>

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

	2010 HK\$ millions	2009 HK\$ millions
At 1 January	5,852	5,281
Additions	842	1,491
Utilisations	(729)	(663)
Write back	(131)	(137)
Relating to subsidiaries disposed of	(12)	(592)
Exchange translation differences	(259)	472
At 31 December	<b>5,563</b>	<b>5,852</b>

The ageing analysis of trade receivables not impaired is as follows:

	2010 HK\$ millions	2009 HK\$ millions
Not past due	4,685	6,214
Past due less than 31 days	2,304	2,222
Past due within 31 to 60 days	554	560
Past due within 61 to 90 days	354	89
Past due over 90 days	6,994	6,640
	<b>14,891</b>	<b>15,725</b>

## 26 Trade and other payables

	2010 HK\$ millions	2009 HK\$ millions
Trade payables	22,460	18,409
Other payables and accruals	54,429	50,108
Provisions (see note 27)	1,613	2,378
Interest free loans from non-controlling shareholders	2,327	2,099
Cash flow hedges (see note 28(a))		
Interest rate swaps	–	20
Cross currency interest rate swaps	–	5
Forward foreign exchange contracts	60	10
	<b>80,889</b>	73,029

At 31 December, the ageing analysis of the trade payables is as follows:

	2010 HK\$ millions	2009 HK\$ millions
Less than 31 days	13,842	8,828
Within 31 to 60 days	2,145	2,701
Within 61 to 90 days	863	964
Over 90 days	5,610	5,916
	<b>22,460</b>	18,409

The Group's five largest suppliers accounted for less than 22% of the Group's cost of purchases for the years ended 31 December 2010 and 2009.

## Notes to the Accounts

### 27 Provisions

	Restructuring and closure provision HK\$ millions	Assets retirement HK\$ millions	Others HK\$ millions	Total HK\$ millions
At 1 January 2009	2,689	998	1,019	4,706
Additions	533	157	647	1,337
Interest accretion	26	(1)	–	25
Utilisations	(1,612)	(1)	(454)	(2,067)
Write back	(14)	(11)	(409)	(434)
Transfer to other assets/liabilities	(235)	(160)	–	(395)
Relating to subsidiaries disposed of	(28)	(55)	(15)	(98)
Exchange translation differences	168	36	8	212
<b>At 1 January 2010</b>	<b>1,527</b>	<b>963</b>	<b>796</b>	<b>3,286</b>
Additions	226	112	255	593
Interest accretion	31	42	–	73
Utilisations	(675)	(5)	(136)	(816)
Write back	(23)	(168)	(28)	(219)
Transfer to other assets/liabilities	(26)	–	–	(26)
Exchange translation differences	(64)	(44)	(320)	(428)
<b>At 31 December 2010</b>	<b>996</b>	<b>900</b>	<b>567</b>	<b>2,463</b>

Provisions are analysed as:

	2010 HK\$ millions	2009 HK\$ millions
Current portion (see note 26)	1,613	2,378
Non-current portion (see note 31)	850	908
	<b>2,463</b>	3,286

The provision for restructuring and closure obligations represents costs to execute restructuring plans and store closures.

The provision for assets retirement obligations represents the present value of the estimated future costs of dismantling and removing fixed assets when they are no longer used and restoring the sites on which they are located.

## 28 Bank and other debts

As disclosed in note 2(s) the carrying amount of bank and other debts comprises of items measured at amortised cost and an element of fair value which is due to movements in interest rates. The following is an analysis of the carrying amount of the bank and other debts:

	2010			2009		
	Current portion	Non-current portion	Total	Current portion	Non-current portion	Total
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
Bank loans	14,357	83,432	97,789	8,688	88,576	97,264
Other loans	188	441	629	526	426	952
Notes and bonds	8,580	140,364	148,944	8,310	152,563	160,873
Total principal amount of bank and other debts	23,125	224,237	247,362	17,524	241,565	259,089
Unamortised loan facilities fees and premiums or discounts related to debts	(3)	1,016	1,013	65	(793)	(728)
Unrealised gain on bank and other debts pursuant to interest rate swap contracts <sup>(a)</sup>	–	2,881	2,881	–	2,079	2,079
	23,122	228,134	251,256	17,589	242,851	260,440

## Notes to the Accounts

### 28 Bank and other debts (continued)

Analysis of principal amount of bank and other debts:

	2010			2009		
	Current portion	Non-current portion	Total	Current portion	Non-current portion	Total
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
<b>Bank loans</b>						
Repayable within 5 years	14,355	83,413	97,768	8,686	84,816	93,502
Not wholly repayable within 5 years	2	19	21	2	3,760	3,762
	<b>14,357</b>	<b>83,432</b>	<b>97,789</b>	<b>8,688</b>	<b>88,576</b>	<b>97,264</b>
<b>Other loans</b>						
Repayable within 5 years	169	84	253	493	105	598
Not wholly repayable within 5 years	19	357	376	33	321	354
	<b>188</b>	<b>441</b>	<b>629</b>	<b>526</b>	<b>426</b>	<b>952</b>
<b>Notes and bonds</b>						
US\$1,065 million notes, 5.45% due 2010	–	–	–	8,310	–	8,310
US\$1,100 million (2009 - US\$1,167 million) notes, 7% due 2011	8,580	–	8,580	–	9,104	9,104
US\$3,146 million notes, 6.5% due 2013	–	24,542	24,542	–	24,542	24,542
US\$1,309 million notes, 6.25% due 2014	–	10,206	10,206	–	10,206	10,206
US\$2,189 million notes, 4.625% due 2015	–	17,077	17,077	–	17,077	17,077
US\$500 million notes-Series B, 7.45% due 2017	–	3,900	3,900	–	3,900	3,900
US\$1,000 million notes, 5.75% due 2019	–	7,800	7,800	–	7,800	7,800
US\$1,500 million notes, 7.625% due 2019	–	11,700	11,700	–	11,700	11,700
US\$329 million notes-Series C, 7.5% due 2027	–	2,565	2,565	–	2,565	2,565
US\$25 million notes-Series D, 6.988% due 2037	–	196	196	–	196	196
US\$1,144 million notes, 7.45% due 2033	–	8,926	8,926	–	8,926	8,926
EUR1,000 million notes, 5.875% due 2013	–	10,360	10,360	–	11,080	11,080
EUR603 million notes, 4.125% due 2015	–	6,245	6,245	–	6,679	6,679
EUR669 million notes, 4.625% due 2016	–	6,932	6,932	–	7,414	7,414
EUR1,750 million notes, 4.75% due 2016	–	18,130	18,130	–	19,390	19,390
GBP325 million bonds, 6.75% due 2015	–	3,907	3,907	–	4,046	4,046
GBP113 million (2009 - GBP116 million) bonds, 5.625% due 2017	–	1,359	1,359	–	1,445	1,445
GBP303 million (2009 - GBP309 million) bonds, 5.625% due 2026	–	3,641	3,641	–	3,847	3,847
JPY30,000 million notes, 3.5% due 2032	–	2,878	2,878	–	2,646	2,646
	<b>8,580</b>	<b>140,364</b>	<b>148,944</b>	<b>8,310</b>	<b>152,563</b>	<b>160,873</b>
	<b>23,125</b>	<b>224,237</b>	<b>247,362</b>	<b>17,524</b>	<b>241,565</b>	<b>259,089</b>

## 28 Bank and other debts (continued)

Bank and other debts at principal amount are repayable as follows:

	2010			2009		
	Current portion HK\$ millions	Non-current portion HK\$ millions	Total HK\$ millions	Current portion HK\$ millions	Non-current portion HK\$ millions	Total HK\$ millions
<b>Bank loans</b>						
Current portion	14,357	–	14,357	8,688	–	8,688
After 1 year, but within 2 years	–	21,853	21,853	–	31,992	31,992
After 2 years, but within 5 years	–	61,561	61,561	–	52,826	52,826
After 5 years	–	18	18	–	3,758	3,758
	<b>14,357</b>	<b>83,432</b>	<b>97,789</b>	<b>8,688</b>	<b>88,576</b>	<b>97,264</b>
<b>Other loans</b>						
Current portion	188	–	188	526	–	526
After 1 year, but within 2 years	–	56	56	–	124	124
After 2 years, but within 5 years	–	135	135	–	128	128
After 5 years	–	250	250	–	174	174
	<b>188</b>	<b>441</b>	<b>629</b>	<b>526</b>	<b>426</b>	<b>952</b>
<b>Notes and bonds</b>						
Current portion	8,580	–	8,580	8,310	–	8,310
After 1 year, but within 2 years	–	–	–	–	9,104	9,104
After 2 years, but within 5 years	–	72,337	72,337	–	45,828	45,828
After 5 years	–	68,027	68,027	–	97,631	97,631
	<b>8,580</b>	<b>140,364</b>	<b>148,944</b>	<b>8,310</b>	<b>152,563</b>	<b>160,873</b>
	<b>23,125</b>	<b>224,237</b>	<b>247,362</b>	<b>17,524</b>	<b>241,565</b>	<b>259,089</b>

The bank and other debts of the Group as at 31 December 2010 are secured to the extent of HK\$952 million (2009 - HK\$2,285 million), all relating to the established businesses.

Borrowings with principal amount of HK\$97,777 million (2009 - HK\$97,232 million) bear interest at floating interest rates and borrowings with principal amount of HK\$149,585 million (2009 - HK\$161,857 million) bear interest at fixed interest rates.

## Notes to the Accounts

### 28 Bank and other debts (continued)

The carrying amounts and fair values of the borrowings are as follows:

	Carrying amounts		Fair values	
	2010 HK\$ millions	2009 HK\$ millions	2010 HK\$ millions	2009 HK\$ millions
Bank loans	97,395	96,930	97,395	96,925
Other loans	571	952	568	949
Notes and bonds	153,290	162,558	161,699	169,345
	<b>251,256</b>	260,440	<b>259,662</b>	267,219

The fair values of the non-current borrowings are based on market quotes or estimated using discounted cash flow calculations based upon the Group's current incremental borrowing rates for similar types of borrowings with maturities consistent with those remaining for the debt being valued. The carrying amounts of current portion of the borrowings approximate their fair value.

Borrowings at principal amount are denominated in the following currencies (inclusive of the effect of hedging transactions):

	2010 Percentage	2009 Percentage
HK dollars	31%	30%
US dollars	29%	31%
Euro	28%	28%
British pounds	5%	5%
Other currencies	7%	6%
	<b>100%</b>	100%

Derivative financial instruments are utilised by the Group in the management of its foreign currency and interest rate exposures. As disclosed in note 2(n), the Group's policy is not to utilise derivative financial instruments for trading or speculative purposes. The Group has entered into interest rate swap agreements with banks and other financial institutions mainly to swap fixed interest rate borrowings to floating interest rate borrowings to manage the fixed and floating interest rate mix of the Group's total debt portfolio. At 31 December 2010, the notional amount of the outstanding interest rate swap agreements with financial institutions amounted to HK\$71,300 million (2009 - HK\$97,813 million).

In addition, interest rate swap agreements with notional amount of HK\$4,270 million (2009 - HK\$3,806 million) was entered to swap floating interest rate borrowings to fixed interest rate borrowings to mainly mitigate interest rate exposures to certain infrastructure project related borrowings.

As at 31 December 2010, the Group had currency swap arrangements with banks to swap US dollar principal amount of borrowings equivalent to HK\$28,593 million (2009 - HK\$28,593 million) to Hong Kong dollar principal amount of borrowings to match currency exposures of the underlying businesses.



## 28 Bank and other debts (continued)

- (a) The analysis of derivative financial instruments utilised by the Group in the management of its interest rate and foreign currency exposures are as follows:

	2010			2009		
	Current portion HK\$ millions	Non-current portion HK\$ millions	Total HK\$ millions	Current portion HK\$ millions	Non-current portion HK\$ millions	Total HK\$ millions
<b>Fair value hedges</b>						
Derivative financial assets						
Interest rate swaps (see note 22)	–	1,776	1,776	–	2,561	2,561
Cross currency interest rate swaps (see note 22)	–	1,105	1,105	–	–	–
	–	2,881	2,881	–	2,561	2,561
Derivative financial liabilities						
Interest rate swaps (see note 31)	–	–	–	–	(152)	(152)
Cross currency interest rate swaps (see note 31)	–	–	–	–	(330)	(330)
	–	–	–	–	(482)	(482)
	–	2,881	2,881	–	2,079	2,079
<b>Cash flow hedges</b>						
Derivative financial assets						
Interest rate swaps (see note 22)	–	15	15	–	–	–
Forward foreign exchange contracts (see notes 22 and 25)	196	194	390	436	–	436
	196	209	405	436	–	436
Derivative financial liabilities						
Interest rate swaps (see notes 26 and 31)	–	(2)	(2)	(20)	–	(20)
Cross currency interest rate swaps (see note 26)	–	–	–	(5)	–	(5)
Forward foreign exchange contracts (see note 26)	(60)	–	(60)	(10)	–	(10)
	(60)	(2)	(62)	(35)	–	(35)
	136	207	343	401	–	401

## 29 Interest bearing loans from non-controlling shareholders

	2010 HK\$ millions	2009 HK\$ millions
Interest bearing loans from non-controlling shareholders	13,493	13,424

The carrying amount of the borrowings approximates their fair value.

## Notes to the Accounts

### 30 Pension plans

	2010 HK\$ millions	2009 HK\$ millions
Defined benefit plans		
Pension assets	–	–
Pension obligations	1,702	2,436
	1,702	2,436

The Group operates a number of defined benefit and defined contribution plans, the assets of which are held independently of the Group's assets in trustee administered funds.

#### (a) Defined benefit plans

The Group's major defined benefit plans are in Hong Kong, the United Kingdom and the Netherlands. The plans are either contributory final salary pension plans or non-contributory guaranteed return defined contribution plans. No other post-retirement benefits are provided.

The Group's major plans were valued by Towers Watson, qualified actuaries as at 31 December 2010 and 31 December 2009 using the projected unit credit method to account for the Group's pension accounting costs.

The principal actuarial assumptions used for the purpose of the actuarial valuation were as follows:

	2010	2009
Discount rate applied to defined benefit plan obligations	2.20% - 17.00%	2.20% - 6.00%
Expected return on plan assets	3.50% - 14.50%	4.30% - 8.48%
Future salary increases	0.29% - 9.00%	1.28% - 5.50%
Interest credited on two principal plans in Hong Kong	5.00% - 6.00%	5.00% - 6.00%

The expected return on plan assets is based on market expectations for returns and long-term benchmark allocation of equities and bonds in each plan and allowing for administration fees and other expenses charged to the plans.

The amount recognised in the consolidated statement of financial position is determined as follows:

	2010 HK\$ millions	2009 HK\$ millions
Present value of defined benefit obligations	13,635	13,985
Fair value of plan assets	12,375	11,574
	1,260	2,411
Unrecognised past services costs	(32)	(35)
Restrictions on asset recognised	474	60
Net defined benefit plan obligations	1,702	2,436

Fair value of plan assets of HK\$12,375 million (2009 - HK\$11,574 million) includes investments in the Company's shares with a fair value of HK\$56 million (2009 - HK\$39 million).

### 30 Pension plans *(continued)*

#### (a) Defined benefit plans *(continued)*

Changes in the present value of the defined benefit obligations are as follows:

	2010 HK\$ millions	2009 HK\$ millions
At 1 January	13,985	11,452
Current service cost net of employee contributions	531	561
Actual employee contributions	113	128
Interest cost	603	574
Actuarial losses (gains) on obligations	(373)	1,454
Gains on curtailments and settlements	(105)	(41)
Relating to subsidiaries disposed of	–	(330)
Transfer to other liabilities	(11)	(13)
Actual benefits paid	(608)	(772)
Exchange translation differences	(500)	972
At 31 December	13,635	13,985

Changes in the fair value of the plan assets are as follows:

	2010 HK\$ millions	2009 HK\$ millions
At 1 January	11,574	8,981
Expected return on plan assets	718	635
Actuarial gains on plan assets	536	1,426
Actual company contributions	623	721
Actual employee contributions	113	128
Relating to subsidiaries disposed of	–	(233)
Actual benefits paid	(608)	(772)
Exchange translation differences	(581)	688
At 31 December	12,375	11,574

## Notes to the Accounts

### 30 Pension plans (continued)

#### (a) Defined benefit plans (continued)

The amount recognised in the consolidated income statement is as follows:

	2010 HK\$ millions	2009 HK\$ millions
Current service cost	531	561
Past service cost	30	8
Interest cost	603	574
Gains on curtailments and settlements	(105)	(41)
Expected return on plan assets	(718)	(635)
Total expense	341	467
Less: expense capitalised	(2)	(1)
Total, included in staff costs	339	466

The actual return on plan assets was HK\$1,254 million (2009 - HK\$2,061 million).

The actuarial gains recognised in other comprehensive income in current year was HK\$463 million (2009 - HK\$31 million). The cumulative actuarial losses recognised in other comprehensive income amounted to HK\$1,421 million (2009 - HK\$1,823 million).

Fair value of the plan assets are analysed as follows:

	2010 Percentage	2009 Percentage
Equity instruments	51%	47%
Debt instruments	42%	46%
Other assets	7%	7%
	100%	100%

The experience adjustments are as follows:

	2010 HK\$ millions	2009 HK\$ millions	2008 HK\$ millions	2007 HK\$ millions	2006 HK\$ millions
Present value of defined benefit obligations	13,635	13,985	11,452	13,151	12,659
Fair value of plan assets	12,375	11,574	8,981	12,175	10,228
Deficit	1,260	2,411	2,471	976	2,431
Experience adjustments on defined benefit obligations	(249)	(82)	502	(13)	(18)
Experience adjustments on plan assets	413	729	(2,253)	648	561

## 30 Pension plans (continued)

### (a) Defined benefit plans (continued)

There is no immediate requirement for the Group to fund the deficit between the fair value of defined benefit plan assets and the present value of the defined benefit plan obligations disclosed as at 31 December 2010. Contributions to fund the obligations are based upon the recommendations of independent qualified actuaries for each of the Group's pension plans to fully fund the relevant schemes on an ongoing basis. The realisation of the deficit is contingent upon the realisation of the actuarial assumptions made which is dependent upon a number of factors including the market performance of plan assets. Funding requirements of the Group's major defined benefit plans are detailed below.

The Group operates two principal plans in Hong Kong. One plan, which has been closed to new entrants since 1994, provides benefits based on the greater of the aggregate of the employee and employer vested contributions plus a minimum interest thereon of 6% per annum, and a benefit derived by a formula based on the final salary and years of service. A formal independent actuarial valuation, undertaken for funding purposes under the provision of Hong Kong's Occupational Retirement Schemes Ordinance ("ORSO"), at 31 May 2009 reported a funding level of 99.8% of the accrued actuarial liabilities on an ongoing basis. The valuation used the attained age valuation method and the main assumptions in the valuation are an investment return of 6% per annum and salary increases of 4% per annum. The valuation was performed by Tian Keat Aun, a Fellow of The Institute of Actuaries, of Towers Watson Hong Kong Limited (formerly known as Watson Wyatt Hong Kong Limited). The second plan provides benefits equal to the employer vested contributions plus a minimum interest thereon of 5% per annum. As at 31 December 2010 this plan is fully funded for the funding of vested benefits in accordance with the ORSO funding requirements. During the year, forfeited contributions totalling HK\$18 million (2009 - HK\$19 million) were used to reduce the current year's level of contributions and HK\$1 million was available at 31 December 2010 (2009 - HK\$2 million) to reduce future years' contributions.

The Group operates three contributory defined benefit plans in the United Kingdom for its ports division, of which the Port of Felixstowe Pension Plan is the principal plan. The plans are all final salary in nature and were closed to new entrants in June 2003. On the assumptions adopted at the last formal actuarial valuation using the projected unit method at 1 January 2007, the ratio of assets to liabilities for the Felixstowe Scheme was 72%. The sponsoring employer's contributions were increased from October 2008 to finance the increased cost of accrual of benefits and to fund the deficit over a period of ten years. The main assumptions in the valuation are an investment return of 7.25% (pre-retirement) and 4.6% (post-retirement), pensionable salary increases of 3.35% per annum and pension increases of 3.1% per annum (for service before 6 April 2005) and 2.25% per annum (for service after 5 April 2005). The valuation was performed by Graham Mitchell, a Fellow of the Institute of Actuaries, of Towers Watson Limited. A new valuation has been commissioned in January 2010.

The Group's defined benefit pension plans for its ports and retail operations in the Netherlands are guaranteed contracts undertaken by insurance companies to provide defined benefit pensions in return for actuarially agreed contributions. The risk of providing past pension benefits is underwritten by the insurance companies. The Group does not carry funding risk relating to past service. The funding rate to provide current year benefits varies in accordance with annual actuarial calculations. As per end of 2010, the combination of the interest rate and a high risk spread result in a relatively low defined benefit obligation. The net assets are temporarily higher than the defined benefit obligation and hence in accordance with applicable accounting standards, a net asset reduction was applied.

The Group operates a defined benefit pension plan for part of its retail operations in the United Kingdom. It was assumed on acquisition of a subsidiary company in 2002. It was not open to new entrants. The latest formal valuation for funding purposes was carried out at 31 March 2009. This allowed for the cessation of accrual of future defined benefits for all active members on 28 February 2010, from which date final salary linkage was also severed. On the assumptions adopted at the valuation using the projected unit method, the ratio of actual asset value to the target asset value being funded for past service benefits was 61%. The sponsoring employer made additional cash contributions totalling £2.5 million in 2010 and will make further contributions of £4 million per annum from 1 January 2011 to 30 November 2021 towards the shortfall being corrected by 30 November 2021. The main assumptions in the valuation are an investment return of 4.9% to 6.5% per annum and pensionable salary increases of 3.62% to 4.57% per annum. The valuation was performed by Clare Wilmington, a Fellow of the Institute and Faculty of Actuaries, of Hewitt Associates Limited.

## Notes to the Accounts

### 30 Pension plans *(continued)*

#### (b) Defined contribution plans

The Group's costs in respect of defined contribution plans for the year amounted to HK\$786 million (2009 - HK\$792 million). No forfeited contributions (2009 - nil) were used to reduce the current year's level of contributions and no forfeited contribution was available at 31 December 2010 (2009 - nil) to reduce future years' contributions.

### 31 Other non-current liabilities

	2010 HK\$ millions	2009 HK\$ millions
Fair value hedges (see note 28(a))		
Interest rate swaps	–	152
Cross currency interest rate swaps	–	330
Cash flow hedges (see note 28(a))		
Interest rate swaps	2	–
Obligations for telecommunications licences and other rights	3,093	3,130
Provisions (see note 27)	850	908
	<b>3,945</b>	4,520

### 32 Share capital and capital management

#### (a) Share capital

	2010 Number of shares	2009 Number of shares	2010 HK\$ millions	2009 HK\$ millions
Authorised:				
Ordinary shares of HK\$0.25 each	5,500,000,000	5,500,000,000	1,375	1,375
7½% cumulative redeemable participating preference shares of HK\$1 each	402,717,856	402,717,856	403	403
			<b>1,778</b>	1,778
Issued and fully paid:				
Ordinary shares	4,263,370,780	4,263,370,780	1,066	1,066

## 32 Share capital and capital management (continued)

### (b) Perpetual capital securities

In October 2010, the Group issued subordinated guaranteed perpetual capital securities with a nominal amount of US\$2,000 million (approximately HK\$15,600 million) for cash. These securities are perpetual, subordinated and the coupon payment is optional in nature. Therefore, perpetual capital securities are classified as equity instruments and recorded in equity in the consolidated statement of financial position.

### (c) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue to provide returns for shareholders and to support the Group's stability and growth. The Group regularly reviews and manages its capital structure to ensure optimal capital structure to maintain a balance between higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

At 31 December 2010, total equity amounted to HK\$352,702 million (2009 - HK\$319,912 million), and consolidated net debt of the Group, excluding loans from non-controlling shareholders which are viewed as quasi equity, was HK\$131,125 million (2009 - HK\$143,355 million). The Group's net debt to net total capital ratio decreased to 26.2% from 29.9% at the end of last year.

As additional information, the following table shows the net debt to net capital ratio calculated on the basis of including loans from non-controlling shareholders and also with the Group's investments in its listed subsidiaries and associated companies marked to market value at the end of the reporting period.

Net debt / Net total capital ratios<sup>a</sup> at 31 December

	2010	2009
A1 - excluding loans from non-controlling shareholders from debt	26.2%	29.9%
A2 - as in A1 above and investments in listed subsidiaries and associated companies marked to market value	23.5%	27.6%
B1 - including loans from non-controlling shareholders as debt	28.9%	32.7%
B2 - as in B1 above and investments in listed subsidiaries and associated companies marked to market value	25.9%	30.2%

- a Net debt is defined on the Consolidated Statement of Cash Flows. Net total capital is defined as total principal amount of bank and other debts plus total equity and loans from non-controlling shareholders net of total cash, liquid funds and other listed investments as shown on the Consolidated Statement of Cash Flows.

## Notes to the Accounts

### 33 Notes to consolidated statement of cash flows

#### (a) Reconciliation of profit after tax to cash generated from operating activities before interest and other finance costs, tax paid, telecommunications CACs and changes in working capital

	2010 HK\$ millions	2009 HK\$ millions
<b>Profit after tax</b>	<b>25,580</b>	21,200
Adjustments for:		
Current tax charge	2,493	4,588
Deferred tax charge (credit)	847	(92)
Interest and other finance costs	8,476	9,613
Change in fair value of investment properties	(855)	(1,117)
Depreciation and amortisation	14,932	16,258
Non-cash items (see note 33(e))	(3,757)	(3,641)
Share of associated companies' and jointly controlled entities'		
Non-controlling interests	(2)	–
Current tax charge	3,015	4,865
Deferred tax charge (credit)	2,099	(1,267)
Interest and other finance costs	3,830	3,412
Change in fair value of investment properties	(3,343)	(546)
Depreciation and amortisation	11,820	10,116
<b>EBITDA<sup>a</sup></b>	<b>65,135</b>	63,389
Telecommunications CACs	16,013	16,544
Share of jointly controlled entity's telecommunications CACs	4,327	2,456
<b>EBITDA before telecommunications CACs</b>	<b>85,475</b>	82,389
Share of EBITDA of associated companies and jointly controlled entities	(37,597)	(28,103)
Profit on disposal of unlisted investments	(236)	(41)
Profit on disposal of fixed assets, leasehold land and investment properties	(549)	(592)
Dividends received from associated companies and jointly controlled entities	9,944	7,469
Distribution from property jointly controlled entities	2,198	208
Profit on disposal of subsidiary companies and jointly controlled entities	(24)	(8,166)
Valuation gains on transfer of an available-for-sale investment to investment in associated company (see note 1(b))	(550)	–
Other non-cash items	614	(103)
	<b>59,275</b>	53,061

- a EBITDA, included as a subtotal as supplementary information, represents the EBITDA of the Company and subsidiary companies as well as the Group's share of the EBITDA of associated companies and jointly controlled entities. EBITDA is defined as earnings before interest expense and other finance costs, tax, depreciation and amortisation, and includes profit on disposal of investments and other earnings of a cash nature but excludes change in fair value of investment properties. Information concerning EBITDA has been included in the Group's financial information and consolidated financial statements and is used by many industries and investors as one measure of gross cash flow generation. The Group considers EBITDA to be an important performance measure which is used in the Group's internal financial and management reporting to monitor business performance. EBITDA is not a measure of cash liquidity or financial performance under generally accepted accounting principles in Hong Kong and the EBITDA measures used by the Group may not be comparable to other similarly titled measures of other companies. EBITDA should not necessarily be construed as an alternative to cash flows as determined in accordance with generally accepted accounting principles in Hong Kong.



### 33 Notes to consolidated statement of cash flows (continued)

#### (b) Changes in working capital

	2010 HK\$ millions	2009 HK\$ millions
Decrease (increase) in inventories	(1,901)	1,619
Decrease (increase) in debtors and prepayments	(10,793)	355
Increase (decrease) in creditors	7,494	(8,702)
Other non-cash items	2,185	2,214
	<b>(3,015)</b>	<b>(4,514)</b>

#### (c) Purchase of subsidiary companies

	2010 Book / Fair value HK\$ millions	2009 Fair value HK\$ millions
Aggregate net assets acquired at acquisition date:		
Fixed assets	–	94
Inventories	–	178
Cash and cash equivalents	–	23
Trade and other receivables	–	80
Bank and other debts	–	(119)
Creditors and current tax liabilities	–	(267)
Deferred tax liabilities	–	(2)
Non-controlling interests	–	1
	–	(12)
Goodwill arising on acquisition	–	605
	–	593
Less: Cost of investments just prior to purchase	–	(444)
Discharged by cash payment	–	149
Net cash outflow (inflow) arising from acquisition:		
Cash payment	–	149
Cash and cash equivalents acquired	–	(23)
Total net cash consideration	–	126

The contribution to the Group's revenue and profit after tax from these subsidiaries acquired since the respective date of acquisition is not material.

## Notes to the Accounts

### 33 Notes to consolidated statement of cash flows (continued)

#### (d) Disposal of subsidiary companies

	2010 HK\$ millions	2009 HK\$ millions
Aggregate net assets disposed at date of disposal (excluding cash and cash equivalents):		
Fixed assets	2	12,272
Investment properties	4	–
Leasehold land	–	9
Telecommunications licences	–	4,810
Brand name and other rights	–	2,866
Goodwill	–	3,251
Associated companies	–	655
Interests in joint ventures	–	5,159
Other non-current assets	–	19
Inventories	–	704
Trade and other receivables	12	6,516
Bank and other debts	–	(4,284)
Pension obligations	–	(97)
Other non-current liabilities	–	(98)
Creditors and current tax liabilities	(82)	(3,678)
Deferred tax liabilities	(5)	(506)
Non-controlling interests	(12)	(4,367)
Loans from non-controlling shareholders	–	(9)
Reserves	(12)	(1,126)
	(93)	22,096
Profit on disposal	24	12,008
	(69)	34,104
Less: Investments retained subsequent to disposal	–	(18,212)
	(69)	15,892
Satisfied by:		
Cash and cash equivalents received as consideration	3	16,121
Less: Cash and cash equivalents sold	(72)	(229)
Total net cash consideration	(69)	15,892

The effect on the Group's results from the disposal of subsidiary companies is not material for the year ended 31 December 2010.

- (e) Included in the non-cash items in 2010 are a one-time net gain of HK\$2,268 million arising from a revised 3 UK network sharing arrangement whereby 3 UK received the right of use of approximately 3,000 cell sites, free of acquisition and future operating costs, for a gain of HK\$6,010 million, partially offset by one-time provisions of HK\$3,742 million mainly related to the restructuring of 3 UK's network infrastructure, and a one-time HK\$1,489 million gain with reference to the assignment of two blocks of 5MHz of 1,800MHz spectrum to 3 Italy. Included in the non-cash items in 2009 is a gain on merger of 3 Australia with Vodafone's Australian operations.

### 34 Share-based payments

The Company has no share option scheme but certain of the Company's subsidiary companies and associated companies have issued equity-settled and cash-settled share-based payments to certain employees. The aggregate amount of the share-based payments recognised by these companies are not material to the Group.

### 35 Pledge of assets

At 31 December 2010, assets of the Group totalling HK\$963 million (2009 - HK\$2,503 million) were pledged as security for bank and other debts.

### 36 Contingent liabilities

At 31 December 2010, the holding company, Hutchison Whampoa Limited, and its subsidiaries provide guarantees in respect of bank and other borrowing facilities to its associated companies and jointly controlled entities of HK\$5,805 million (2009 - HK\$13,081 million).

The amount utilised by its associated companies and jointly controlled entities are as follows:

	2010 HK\$ millions	2009 HK\$ millions
To associated companies		
Other businesses	2,258	1,147
To jointly controlled entities		
Property businesses	1,556	1,609
Other businesses	1,308	9,771
	<b>2,864</b>	11,380

At 31 December 2010, the Group had provided performance and other guarantees of HK\$3,159 million (2009 - HK\$5,039 million) primarily for telecommunications businesses.

## Notes to the Accounts

### 37 Commitments

Outstanding Group commitments not provided for in the accounts at 31 December 2010 are as follows:

#### Capital commitments

1. Contracted for:

- i. Ports and related services - HK\$7,637 million (2009 - HK\$2,210 million)
- ii. Telecommunications - 3 Group - HK\$569 million (2009 - HK\$1,198 million)
- iii. Telecommunications - HK\$643 million (2009 - HK\$2,480 million)
- iv. Investment properties, Hong Kong - HK\$656 million (2009 - HK\$4 million)
- v. Investment in joint ventures outside Hong Kong - nil (2009 - HK\$6 million)
- vi. Other fixed assets - HK\$133 million (2009 - HK\$338 million)

2. Authorised but not contracted for:

The Group, as part of its annual budget process, budgets for future capital expenditures and these amounts are shown below. These budgeted amounts are subject to a rigorous authorisation process before the expenditure is committed.

- i. Ports and related services, Hong Kong - nil (2009 - HK\$61 million)
- ii. Ports and related services, Mainland China - HK\$692 million (2009 - HK\$791 million)
- iii. Ports and related services, others - HK\$1,801 million (2009 - HK\$1,898 million)
- iv. Telecommunications - 3 Group - HK\$5,693 million (2009 - HK\$6,333 million)
- v. Telecommunications - HK\$4,302 million (2009 - HK\$2,177 million)
- vi. Investment properties, Hong Kong - HK\$297 million (2009 - HK\$2 million)
- vii. Investment in joint ventures outside Hong Kong - HK\$3,296 million (2009 - HK\$3 million)
- viii. Other fixed assets - HK\$2,850 million (2009 - HK\$1,273 million)

#### Operating lease commitments – future aggregate minimum lease payments for land and buildings leases

##### Established Businesses

1. In the first year - HK\$8,096 million (2009 - HK\$8,313 million)
2. In the second to fifth years inclusive - HK\$18,957 million (2009 - HK\$20,506 million)
3. After the fifth year - HK\$32,717 million (2009 - HK\$43,194 million)

##### Telecommunications - 3 Group

1. In the first year - HK\$1,853 million (2009 - HK\$2,526 million)
2. In the second to fifth years inclusive - HK\$4,545 million (2009 - HK\$6,672 million)
3. After the fifth year - HK\$4,089 million (2009 - HK\$5,901 million)

#### Operating lease commitments – future aggregate minimum lease payments for other assets

##### Established Businesses

1. In the first year - HK\$1,248 million (2009 - HK\$1,017 million)
2. In the second to fifth years inclusive - HK\$4,417 million (2009 - HK\$3,176 million)
3. After the fifth year - HK\$4,747 million (2009 - HK\$4,301 million)

##### Telecommunications - 3 Group

1. In the first year - HK\$203 million (2009 - HK\$28 million)
2. In the second to fifth years inclusive - HK\$586 million (2009 - HK\$12 million)

## 38 Related parties transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation. Transactions between the Group and other related parties during the year are not significant to the Group. The outstanding balances with associated companies and jointly controlled entities as disclosed in notes 19 and 20 are unsecured. Balances totalling HK\$2,325 million (2009 - HK\$4,081 million) are interest bearing. In addition, during 2009, the Group acquired traded debt securities outside Hong Kong with a principal amount of US\$200 million notes issued by listed associated company, Husky Energy and sold certain of these notes with a principal amount of US\$97 million. As disclosed in note 23, as at 31 December 2010 and 2009, principal amount totalling US\$78 million and US\$25 million of these notes will mature in 2014 and 2019 respectively.

The Group has entered into joint ventures with Cheung Kong (Holdings) Limited, a substantial shareholder of the Company, to undertake various, mainly property, projects. At 31 December 2010, included in associated companies and interests in joint ventures on the statement of financial position is a total amount of HK\$27,301 million (2009 - HK\$27,042 million) representing equity contributions to and the net amount due from these related entities. The Group had guaranteed bank and other borrowing facilities of HK\$1,653 million (2009 - HK\$1,759 million) for the benefit of these same entities.

No transactions have been entered with the directors of the Company (being the key management personnel) during the year other than the emoluments paid to them (being the key management personnel compensation) as disclosed in note 7.

## 39 Legal proceedings

As at 31 December 2010, the Group is not engaged in any material litigation or arbitration proceedings, and no material litigation or claim is known by the Group to be pending or threatened against it.

## 40 Subsequent events

Subsequent to the year end, the Group completed an Initial Public Offer ("IPO") of units in Hutchison Port Holdings Trust ("HPH Trust") which was listed on the Main Board of the Singapore Stock Exchange on 18 March 2011. HPH Trust holds and operates the Group's interests in deep water container port businesses in the Pearl River Delta in Guangdong Province, including Hong Kong and Yantian ports. The Group currently retains a 27.6% interest in HPH Trust. The market capitalisation of HPH Trust at listing was approximately US\$8,800 million (approximately HK\$68,500 million) and the Group will report a gain on disposal of approximately US\$5,650 million (approximately HK\$44,000 million) in its 2011 results.

## 41 US dollar equivalents

Amounts in these accounts are stated in Hong Kong dollars (HK\$), the currency of the place in which the Company is incorporated and is the functional currency of the Company. The translation into US dollars of these accounts as of, and for the year ended, 31 December 2010, is for convenience only and has been made at the rate of HK\$7.80 to US\$1. This translation should not be construed as a representation that the Hong Kong dollar amounts actually represented have been, or could be, converted into US dollars at this or any other rate.

## 42 Approval of accounts

The accounts set out on pages 126 to 222 were approved by the Board of Directors on 29 March 2011.

## Notes to the Accounts

### 43 Profit before tax

In accordance with the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, profit before tax is shown after crediting and charging the following items:

	2010 HK\$ millions	2009 HK\$ millions
<b>Credits:</b>		
Share of profits less losses of associated companies		
Listed	4,683	4,337
Unlisted	1,786	1,053
	<b>6,469</b>	5,390
Share of gross rental income of associated companies and jointly controlled entities	635	614
Gross rental income from investment properties held by:		
Listed subsidiary - HHR	78	80
Other subsidiaries (excluding HHR)	3,314	3,173
Less: intra group rental income	(349)	(346)
	<b>3,043</b>	2,907
Less: related outgoings	(26)	(37)
Net rental income of subsidiary companies	<b>3,017</b>	2,870
Dividend and interest income from managed funds and other investments		
Listed	840	1,049
Unlisted	75	149
<b>Charges:</b>		
Depreciation and amortisation		
Fixed assets	13,093	13,824
Leasehold land	912	898
Telecommunications licences	390	633
Brand names and other rights	537	903
	<b>14,932</b>	16,258
Inventories write off	950	1,221
Operating leases		
Properties	14,604	14,780
Hire of plant and machinery	1,931	1,624
Auditors' remuneration		
Audit and audit related work - PricewaterhouseCoopers	177	195
- other auditors	15	13
Non-audit work - PricewaterhouseCoopers	28	24
- other auditors	22	20

## 44 Financial risk management

The Group's major financial assets and financial liabilities include cash and cash equivalents, liquid funds and other listed investments and borrowings. Details of these financial assets and financial liabilities are disclosed in the respective notes. The Group's treasury function sets financial risk management policies in accordance with policies and procedures that are approved by the Executive Directors, and which are also subject to periodic review by the Group's internal audit function. The Group's treasury policies are designed to mitigate the impact of fluctuation in interest rates and exchange rates and to minimise the Group's financial risks. The Group's treasury function operates as a centralised service for managing financial risks, including interest rate and foreign exchange risks, and for providing cost-efficient funding to the Group and its companies. It manages the majority of the Group's funding needs, interest rate, foreign currency and credit risk exposures. The Group cautiously uses derivatives, principally interest rate and foreign currency swaps and forward currency contracts as appropriate for risk management purposes only, for hedging transactions and for managing the Group's assets and liabilities. It is the Group's policy not to enter into derivative transactions for speculative purposes. It is also the Group's policy not to invest liquidity in financial products, including hedge funds or similar vehicles, with significant underlying leverage or derivative exposure.

### (a) Cash management and funding

The Group operates a central cash management system for all of its unlisted subsidiaries. Except for listed and certain overseas entities conducting businesses in non-HK or non-US dollar currencies, the Group generally obtains long-term financing at the Group level to on-lend or contribute as equity to its subsidiaries and associates to meet their funding requirements and provide more cost-efficient financing. These borrowings include a range of capital market issues and bank borrowings, which change depending upon financial market conditions and projected interest rates. The Group regularly and closely monitors its overall debt position and reviews its funding costs and maturity profile to facilitate refinancing.

The Group continues to have a healthy financial position. Cash, liquid funds and other listed investments ("liquid assets") amounted to HK\$116,237 million at 31 December 2010, an increase from HK\$115,734 million at the end of 2009, mainly reflecting the higher cash flow from operations of both the established businesses and 3 Group, as well as the proceeds from the issuance of perpetual capital securities in 2010 of US\$2,000 million and US\$1,000 million by a wholly owned subsidiary of the Group and a listed subsidiary, Cheung Kong Infrastructure respectively, offset by the utilisation of cash for the acquisition of fixed assets, investments in the UK Power Assets businesses and the Group's 34.55% share of Husky Energy's C\$1,000 million common share placement, dividend payments and payment of HK\$4,199 million to non-controlling interest of Hutchison Telecommunications International ("HTIL") pursuant to the scheme to privatise HTIL. Liquid assets were denominated as to 9% in HK dollars, 46% in US dollars, 21% in Renminbi, 8% in Euro, 5% in British pounds and 11% in other currencies (2009 - 9% were denominated in HK dollars, 57% in US dollars, 13% in Renminbi, 6% in Euro, 4% in British pounds and 11% in other currencies).

Cash and cash equivalents represented 79% (2009 - 80%) of the liquid assets, US Treasury notes and listed / traded debt securities 15% (2009 - 15%), listed equity securities 5% (2009 - 4%) and long-term deposits and others 1% (2009 - 1%).

The US Treasury notes and listed / traded debt securities, including those held under managed funds, consisted of government guaranteed notes (47%) (2009 - 32%), supranational notes (17%) (2009 - 38%), US Treasury notes (12%) (2009 - 1%), government related entities issued notes (7%) (2009 - 12%), notes issued by the Group's associated company, Husky Energy (5%) (2009 - 5%), and others (12%) (2009 - 12%). Of these US Treasury notes and listed / traded debt securities, 77% (2009 - 78%) are rated at Aaa/AAA with an average maturity of 1.1 years on the overall portfolio. The Group has no exposure in mortgage backed securities, collateralised debt obligations or similar asset classes.

### (b) Interest rate exposure

The Group manages its interest rate exposure with a focus on reducing the Group's overall cost of debt and exposure to changes in interest rates. When considered appropriate, the Group uses derivatives such as interest rate swaps and forward rate agreements to manage its interest rate exposure. The Group's main interest rate exposure relates to US dollar, British pound, Euro and HK dollar borrowings.

## Notes to the Accounts

### 44 Financial risk management *(continued)*

#### (b) Interest rate exposure *(continued)*

At 31 December 2010, approximately 40% (2009 - approximately 38%) of the Group's total principal amount of bank and other debts were at floating rates and the remaining 60% (2009 - approximately 62%) were at fixed rates. The Group has entered into various interest rate agreements with major financial institutions counterparties to swap approximately HK\$71,300 million (2009 - approximately HK\$97,813 million) principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK\$4,270 million (2009 - HK\$3,806 million) principal amount of floating interest rate borrowings were swapped to fixed interest rate borrowings. After taking into consideration these interest rate swaps, approximately 67% (2009 - approximately 74%) of the Group's total principal amount of bank and other debts were at floating rates and the remaining 33% (2009 - approximately 26%) were at fixed rates at 31 December 2010.

#### (c) Foreign currency exposure

For overseas subsidiaries and associates and other investments, which consist of non-HK dollar and non-US dollar assets, the Group generally endeavours to establish a natural hedge for debt financing with an appropriate level of borrowings in those same currencies. For overseas businesses that are in the development phase, or where borrowings in the local currency are not or are no longer attractive, the Group may not borrow in the local currency or may repay existing borrowings and monitor the development of the businesses' cashflow and the relevant debt markets with a view to refinancing these businesses with local currency borrowings in the future when conditions are more appropriate. Exposure to movements in exchange rates for individual transactions (such as major procurement contracts) directly related to the underlying businesses is minimised by using forward foreign exchange contracts and currency swaps where active markets for the relevant currencies exist. The Group generally does not enter into foreign currencies hedges in respect of its long-term equity investments in overseas subsidiaries and associates. During the year, the currencies of certain countries, notably the Euro and British pound, where the Group has overseas operations weakened against the Hong Kong dollar. This gave rise to an unrealised loss of HK\$2,610 million (2009 - gain of HK\$15,813 million) on translation of these operations' net assets to the Group's Hong Kong dollar reporting currency, including the Group's share of translation gains and losses of associated companies and jointly controlled entities. This unrealised loss is reflected as a movement in the Consolidated Statement of Changes in Equity under the heading of exchange reserve.

At 31 December 2010, the Group had currency swap arrangements with banks to swap US dollar principal amount of borrowings equivalent to HK\$28,593 million (2009 - HK\$28,593 million) to Hong Kong dollar principal amount of borrowings to match the currency exposures of the underlying businesses. The Group's total principal amount of bank and other debts, after the above swaps, are denominated as follows: 31% in HK dollars, 29% in US dollars, 28% in Euro, 5% in British pounds and 7% in other currencies (2009 - 30% in HK dollars, 31% in US dollars, 28% in Euro, 5% in British pounds and 6% in other currencies).

#### (d) Credit exposure

The Group's holdings of cash, managed funds and other liquid investments, and interest rate and foreign currency swaps and forward currency contracts with financial institutions expose the Group to credit risk of counterparties. The Group controls its credit risk to non-performance by its counterparties through monitoring their equity share price movements, credit ratings and setting approved counterparty credit limits that are regularly reviewed.

The Group is also exposed to counterparties credit risk from its operating activities, which is continuously monitored by the local operational management.

#### (e) Market price risk

The Group's main market price risk exposures relate to listed / traded debt and equity securities described in "liquid assets" above and the interest rate swaps as described in "interest rate exposure" above. The Group's holding of listed / traded debt and equity securities represented approximately 20% (2009 - approximately 19%) of the liquid assets. The Group controls this risk through monitoring the price movements and changes in market conditions that may have an impact on the value of these financial assets and instruments.



## 44 Financial risk management *(continued)*

### (f) Market risks sensitivity analyses

For the presentation of financial assets and financial liabilities market risks (including interest rate risk, currency risk and other price risk) information, HKFRS 7 "Financial Instruments: Disclosures" requires disclosure of a sensitivity analysis for each type of financial market risk that shows the effects of a hypothetical change in the relevant market risk variable to which the Group is exposed at the end of the reporting period on profit for the year and on total equity.

The effect that is disclosed in the following sections assumes that (a) a hypothetical change of the relevant risk variable had occurred at the end of the reporting period and had been applied to the relevant risk variable in existence on that date; and (b) the sensitivity analysis for each type of financial market risk does not reflect inter-dependencies between risk variables, e.g. the interest rate sensitivity analysis does not take into account of the impact of changes in interest rates would have on the relative strengthening and weakening of the currency with other currencies.

**The preparation and presentation of the sensitivity analysis on financial market risk is solely for compliance with HKFRS 7 disclosure requirements in respect of financial assets and financial liabilities. The sensitivity analysis measures changes in the fair value and/or cashflows of the Group's financial assets and financial liabilities from hypothetical instantaneous changes in one risk variable (e.g. functional currency rate or interest rate), the amount so generated from the sensitivity analysis are "what-if" forward-looking estimates. The sensitivity analyses are for illustration purposes only and it should be noted that in practice market rates rarely change in isolation. Actual results in the future may differ materially from the sensitivity analyses due to developments in the global markets which may cause fluctuations in market rates (e.g. exchange or interest rate) to vary and therefore it is important to note that the hypothetical amounts so generated do not represent a projection of likely future events and profits or losses.**

#### *(i) Interest rate sensitivity analysis*

Interest rate risk as defined by HKFRS 7 arises on interest-bearing financial assets and financial liabilities.

The interest rate sensitivity analysis is based on the following assumptions:

In the cases of non-derivative financial assets and financial liabilities with fixed interest rates, changes in market interest rates only affect profit for the year or total equity if these financial assets and financial liabilities are measured at the fair value. Accordingly, all non-derivative financial assets and financial liabilities with fixed interest rates that are carried at amortised cost are excluded from the interest rate sensitivity analysis as they are not subject to interest rate risk as defined in HKFRS 7.

In the cases of derivative financial assets and financial liabilities designated as hedging instruments, changes in market interest rates affect their fair value. All interest rate hedges are expected to be highly effective. Changes in the fair value of fair value interest rate hedges and changes in the fair value of the hedged items that are attributable to interest rate movements effectively balance out with each other in income statement in the same period. Accordingly, these hedging instruments and hedged items are excluded from the interest rate sensitivity analysis as they are not exposed to interest rate risk as defined in HKFRS 7.

Major financial assets and financial liabilities for the purpose of the interest rate sensitivity analysis include:

- cash and cash equivalents (see note 24)
- some of the listed debt securities and managed funds (see note 23) carried at fair value that bear interest at fixed rate
- some of the listed debt securities and managed funds (see note 23) that bear interest at floating rate
- some of the bank and other debts (see note 28) that bear interest at floating rate
- interest bearing loans from non-controlling shareholders (see note 29)

### 44 Financial risk management *(continued)*

#### (f) Market risks sensitivity analyses *(continued)*

##### *(i) Interest rate sensitivity analysis (continued)*

Under these assumptions, the impact of a hypothetical 100 basis points increase in market interest rate at the end of the reporting period, with all other variables held constant:

- profit for the year would decrease by HK\$1,366 million (2009 - HK\$1,496 million) due to increase in interest expense;
- total equity would decrease by HK\$1,366 million (2009 - HK\$1,496 million) due to increase in interest expense; and
- total equity would decrease by HK\$9 million (2009 - HK\$72 million) mainly due to decrease in value of available-for-sale investments.

##### *(ii) Foreign currency exchange rate sensitivity analysis*

Currency risk as defined by HKFRS 7 arises on financial assets and financial liabilities being denominated in a currency that is not the functional currency and being of a monetary nature. Therefore, non-monetary financial assets and financial liabilities, monetary financial assets and financial liabilities denominated in the entity's functional currency and differences resulting from the translation of financial statements of overseas subsidiaries into the Group's presentation currency are therefore not taken into consideration for the purpose of the sensitivity analysis for currency risk.

The foreign currency exchange rate sensitivity analysis is based on the following assumptions:

Major non-derivative monetary financial assets and financial liabilities are either directly denominated in the functional currency or are transferred to the functional currency through the use of foreign currency swaps and forward currency contracts. Exchange fluctuations of these monetary financial assets and financial liabilities therefore have no material effects on profit for the year and total equity.

In the cases of derivative financial assets and financial liabilities designated as hedging instruments, changes in foreign exchange rates affect their fair value. All fair value hedges designed for hedging currency risk are expected to be highly effective. Changes in the fair value of foreign currency fair value hedges and changes in the fair value of the hedged items effectively balance out with each other in income statement in the same period. As a consequence, these hedging instruments and hedged items are excluded from the foreign currency exchange rate sensitivity analysis as they are not exposed to currency risk as defined in HKFRS 7.

Major financial assets and financial liabilities for the purpose of the foreign currency exchange rate sensitivity analysis include:

- some of the cash and cash equivalents (see note 24)
- some of the liquid funds and other listed investments (see note 23)
- some of the bank and other debts (see note 28)

## 44 Financial risk management *(continued)*

### (f) Market risks sensitivity analyses *(continued)*

#### *(ii) Foreign currency exchange rate sensitivity analysis (continued)*

Under these assumptions, the impact of a hypothetical 10% weakening of HK dollar against all exchange rates at the end of the reporting period, with all other variables held constant, on the Group's profit for the year and total equity is set out in the table below.

	2010		2009	
	Hypothetical increase (decrease) in profit for the year HK\$ millions	Hypothetical increase (decrease) in total equity HK\$ millions	Hypothetical increase (decrease) in profit for the year HK\$ millions	Hypothetical increase (decrease) in total equity HK\$ millions
EURO	59	59	74	74
GBP	159	224	105	111
AUD	265	405	241	364
RMB	25	102	65	68
USD	2,168	2,174	3,127	3,130
Japanese Yen	(290)	(295)	(265)	(265)

#### *(iii) Other price sensitivity analysis*

Other price risk as defined by HKFRS 7 arises from changes in market prices (other than those arising from interest rate risk and currency risk as detailed in "interest rate exposure" and "foreign currency exposure" paragraphs above) on financial assets and financial liabilities.

The other price sensitivity analysis is based on the assumption that changes in market prices (other than those arising from interest rate risk and currency risk) of financial assets and financial liabilities only affect profit for the year or total equity if these financial assets and financial liabilities are measured at the fair value. Accordingly, all non-derivative financial assets and financial liabilities carried at amortised cost are excluded from the other price sensitivity analysis as they are not subject to other price risk as defined in HKFRS 7.

Major financial assets and financial liabilities for the purpose of the other price sensitivity analysis include:

- available-for-sale investments (see note 23)
- financial assets at fair value through profit or loss (see note 23)

Under these assumptions, the impact of a hypothetical 10% increase in the market price of the Group's available-for-sale investments and financial assets at fair value through profit or loss at the end of the reporting period, with all other variables held constant:

- profit for the year would increase by HK\$83 million (2009 - HK\$61 million) due to increase in gains on financial assets at fair value through profit or loss;
- total equity would increase by HK\$83 million (2009 - HK\$61 million) due to increase in gains on financial assets at fair value through profit or loss; and
- total equity would increase by HK\$2,372 million (2009 - HK\$2,255 million) due to increase in gains on available-for-sale investments.

## Notes to the Accounts

### 44 Financial risk management (continued)

#### (g) Contractual maturities of financial liabilities

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted principal cash flows and the earliest date the Group can be required to pay:

	Contractual maturities					Carrying amounts HK\$ millions
	Within 1 year	After 1 year, but within 5 years	After 5 years	Total undiscounted cash flows	Difference from carrying amount	
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions	
<b>At 31 December 2010</b>						
Trade payables	22,460	–	–	22,460	–	22,460
Other payables and accruals	54,429	–	–	54,429	–	54,429
Interest free loans from non-controlling shareholders	2,327	–	–	2,327	–	2,327
Bank loans	14,357	83,414	18	97,789	(394)	97,395
Other loans	188	191	250	629	(58)	571
Notes and bonds	8,580	72,337	68,027	148,944	4,346	153,290
Interest bearing loans from non-controlling shareholders	–	10,246	3,247	13,493	–	13,493
Obligations for telecommunications licences and other rights	874	2,782	253	3,909	(816)	3,093
	103,215	168,970	71,795	343,980	3,078	347,058

The table above excludes interest accruing and payable on certain of these liabilities which are estimated to be HK\$9,756 million in "within 1 year" maturity band, HK\$27,910 million in "after 1 year, but within 5 years" maturity band, and HK\$24,597 million in "after 5 years" maturity band. These estimates are calculated assuming effect of hedging transactions and interest rates with respect to variable rate financial liabilities remain constant and there is no change in aggregate principal amount of financial liabilities other than repayment at scheduled maturity as reflected in the table.

	Contractual maturities			
	Within 1 year	After 1 year, but within 5 years	After 5 years	Total undiscounted cash flows
	HK\$ millions	HK\$ millions	HK\$ millions	HK\$ millions
<b>At 31 December 2010</b>				
Derivative settled gross:				
Cash flow hedges - interest rate swaps				
- Net outflow	(11)	(34)	–	(45)
Cash flow hedges - forward foreign exchange contracts				
- Inflow	3,075	–	–	3,075
- Outflow	(3,091)	–	–	(3,091)

## 44 Financial risk management (continued)

### (g) Contractual maturities of financial liabilities (continued)

	Contractual maturities			Total undiscounted cash flows HK\$ millions	Difference from carrying amount HK\$ millions	Carrying amounts HK\$ millions
	Within 1 year HK\$ millions	After 1 year, but within 5 years HK\$ millions	After 5 years HK\$ millions			
<b>At 31 December 2009</b>						
Trade payables	18,409	–	–	18,409	–	18,409
Other payables and accruals	50,108	–	–	50,108	–	50,108
Interest free loans from non-controlling shareholders	2,099	–	–	2,099	–	2,099
Bank loans	8,688	84,818	3,758	97,264	(334)	96,930
Other loans	526	252	174	952	–	952
Notes and bonds	8,310	54,932	97,631	160,873	1,685	162,558
Interest bearing loans from non-controlling shareholders	–	12,750	674	13,424	–	13,424
Obligations for telecommunications licences and other rights	795	2,680	873	4,348	(1,218)	3,130
Fair value hedges						
- Interest rate swaps (net settled)	(549)	49	569	69	83	152
- Cross currency interest rate swaps (net settled)	(683)	429	488	234	96	330
	87,703	155,910	104,167	347,780	312	348,092

The table above excludes interest accruing and payable on certain of these liabilities which are estimated to be HK\$7,860 million in "within 1 year" maturity band, HK\$22,833 million in "after 1 year, but within 5 years" maturity band, and HK\$29,013 million in "after 5 years" maturity band. These estimates are calculated assuming effect of hedging transactions and interest rates with respect to variable rate financial liabilities remain constant and there is no change in aggregate principal amount of financial liabilities other than repayment at scheduled maturity as reflected in the table.

	Contractual maturities			Total undiscounted cash flows HK\$ millions
	Within 1 year HK\$ millions	After 1 year, but within 5 years HK\$ millions	After 5 years HK\$ millions	
<b>At 31 December 2009</b>				
Derivative settled gross:				
Cash flow hedges - cross currency interest rate swaps				
- Inflow	19	–	–	19
- Outflow	(24)	–	–	(24)
Cash flow hedges - forward foreign exchange contracts				
- Inflow	2,456	–	–	2,456
- Outflow	(2,440)	–	–	(2,440)

### (h) In accordance with the disclosure requirement of HKFRS 7, other gains and losses recognised in income statement includes the following items:

	2010 HK\$ millions	2009 HK\$ millions
Change in fair value of financial assets at fair value through profit or loss	48	128
Gains (losses) arising on derivatives in a designated fair value hedge	2,747	(1,685)
Gains (losses) arising on adjustment for hedged item in a designated fair value hedge	(2,747)	1,685
Interest income on available-for-sale financial assets	666	845

## Notes to the Accounts

### 44 Financial risk management (continued)

#### (i) Fair value of financial instruments

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the statement of financial position at fair value. The amendment to HKFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;  
 Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and  
 Level 3: Inputs for the assets or liabilities that are not based on observable market data (i.e. unobservable inputs).

The following tables provide an analysis of financial instruments that are measured at fair value, grouped into Level 1 to Level 3:

	Level 1 HK\$ millions	Level 2 HK\$ millions	Level 3 HK\$ millions	Total HK\$ millions
<b>At 31 December 2010</b>				
Financial instruments measured at fair value				
Available-for-sale investments				
- Unlisted equity securities (see note 22)	–	–	1,175	1,175
- Managed funds, outside Hong Kong (see note 23)	14,505	–	–	14,505
- Listed / traded debt securities, outside Hong Kong (see note 23)	867	2,169	–	3,036
- Listed equity securities, Hong Kong (see note 23)	913	–	–	913
- Listed equity securities, outside Hong Kong (see note 23)	4,191	–	1,071	5,262
Financial assets at fair value through profit or loss (see note 23)	–	833	–	833
	<b>20,476</b>	<b>3,002</b>	<b>2,246</b>	<b>25,724</b>
Fair value hedges				
- Interest rate swaps (see note 22)	–	1,776	–	1,776
- Cross currency interest rate swaps (see note 22)	–	1,105	–	1,105
	–	<b>2,881</b>	–	<b>2,881</b>
Cash flow hedges				
- Interest rate swaps (see note 22)	–	15	–	15
- Forward foreign exchange contracts (see notes 22 and 25)	–	390	–	390
- Interest rate swaps (see note 31)	–	(2)	–	(2)
- Forward foreign exchange contracts (see note 26)	–	(60)	–	(60)
	–	<b>343</b>	–	<b>343</b>

## 44 Financial risk management *(continued)*

### (i) Fair value of financial instruments *(continued)*

	Level 1 HK\$ millions	Level 2 HK\$ millions	Level 3 HK\$ millions	Total HK\$ millions
<b>At 31 December 2009</b>				
Financial instruments measured at fair value				
Available-for-sale investments				
- Unlisted equity securities (see note 22)	–	–	1,334	1,334
- Managed funds, outside Hong Kong (see note 23)	14,404	–	–	14,404
- Listed / traded debt securities, outside Hong Kong (see note 23)	848	2,114	–	2,962
- Listed equity securities, Hong Kong (see note 23)	407	–	–	407
- Listed equity securities, outside Hong Kong (see note 23)	3,778	–	1,003	4,781
Financial assets at fair value through profit or loss (see note 23)	–	605	–	605
	19,437	2,719	2,337	24,493
Fair value hedges				
- Interest rate swaps (see note 22)	–	2,561	–	2,561
- Interest rate swaps (see note 31)	–	(152)	–	(152)
- Cross currency interest rate swaps (see note 31)	–	(330)	–	(330)
	–	2,079	–	2,079
Cash flow hedges				
- Forward foreign exchange contracts (see note 25)	–	436	–	436
- Interest rate swaps (see note 26)	–	(20)	–	(20)
- Cross currency interest rate swaps (see note 26)	–	(5)	–	(5)
- Forward foreign exchange contracts (see note 26)	–	(10)	–	(10)
	–	401	–	401

## Notes to the Accounts

### 44 Financial risk management *(continued)*

#### (i) Fair value of financial instruments *(continued)*

There were no transfers between the Level 1 and Level 2 during the year.

The fair value of financial instruments that are not traded in active market is determined by using valuation techniques.

Specific valuation techniques used to value financial instruments include discounted cash flow analysis, are used to determine fair value for the financial instruments.

The movements of the balance of financial instruments measured at fair value based on Level 3 are as follows:

	2010 HK\$ millions	2009 HK\$ millions
<b>At 1 January</b>	<b>2,337</b>	2,543
Total gains (losses) recognised in		
Income statement	(1)	(41)
Other comprehensive income	382	67
Additions	264	4
Disposals	(736)	(8)
Transfer to investment in associate	–	(228)
<b>At 31 December</b>	<b>2,246</b>	2,337
Total losses for the year included in income statement and presented in other operating expenses	(1)	(41)
Total losses recognised in income statement relating to those instruments held at the end of the reporting period	(1)	(41)



## 45 Statement of financial position of the Company, unconsolidated

In accordance with the disclosure requirements of the Hong Kong Companies Ordinance, the statement of financial position of the Company as at 31 December 2010 is set out as follows:

	2010 HK\$ millions	2009 HK\$ millions
<b>Assets</b>		
Non-current assets		
Subsidiary companies - Unlisted shares <sup>(a)</sup>	39,931	39,931
Current assets		
Amounts due from subsidiary companies <sup>(b)</sup>	66,906	66,864
Current liabilities		
Bank overdrafts	–	2
Other payables and accruals	69	54
	69	56
Net current assets	66,837	66,808
<b>Net assets</b>	<b>106,768</b>	<b>106,739</b>
<b>Capital and reserves</b>		
Share capital (see note 32(a))	1,066	1,066
Reserves <sup>(c)</sup>	105,702	105,673
<b>Shareholders' funds</b>	<b>106,768</b>	<b>106,739</b>

**Fok Kin-ning, Canning**  
*Director*

**Frank John Sixt**  
*Director*

## Notes to the Accounts

### 45 Statement of financial position of the Company, unconsolidated (continued)

- (a) Particulars regarding the principal subsidiary companies are set forth on pages 217 to 222.
- (b) Amounts due from subsidiary companies are interest-free, unsecured and repayable on demand.
- (c) Reserves

	Share premium HK\$ millions	Retained profit HK\$ millions	Total HK\$ millions
At 1 January 2009	28,359	77,296	105,655
Profit for the year	–	7,388	7,388
Unclaimed dividend paid write back	–	5	5
Dividends paid relating to 2008	–	(5,201)	(5,201)
Dividends paid relating to 2009	–	(2,174)	(2,174)
At 31 December 2009	<b>28,359</b>	<b>77,314</b>	<b>105,673</b>
Profit for the year	–	7,399	7,399
Unclaimed dividend paid write back	–	5	5
Dividends paid relating to 2009	–	(5,201)	(5,201)
Dividends paid relating to 2010	–	(2,174)	(2,174)
At 31 December 2010	<b>28,359</b>	<b>77,343</b>	<b>105,702</b>

- (d) The Company does not have an option scheme for the purchase of ordinary shares in the Company.
- (e) Pursuant to the disclosure requirement of the Hong Kong Companies Ordinance, the Company is required to disclose that it has guaranteed the borrowings of its finance and other subsidiary companies which have been consolidated and included in the consolidated statement of financial position of the Group. Of the consolidated borrowings included in note 28 totalling HK\$251,256 million (2009 – HK\$260,440 million), the Company has guaranteed a total of HK\$201,429 million (2009 – HK\$214,732 million) which has been borrowed in the name of subsidiary companies. The Company has also guaranteed perpetual capital securities of US\$2,000 million, approximately HK\$15,600 million (2009 – nil) issued by a wholly owned subsidiary company.
- (f) The Company has no guarantees provided in respect of the bank and other borrowing facilities utilised by the jointly controlled entities (2009 – HK\$8,513 million) and other guarantees (2009 – HK\$3,405 million). These amounts have been included in the Group's contingent liabilities disclosed in note 36.
- (g) Pursuant to the disclosure requirement of the Hong Kong Companies Ordinance, the net profit of the Company is HK\$7,399 million (2009 – HK\$7,388 million) and is included in determining the profit attributable to ordinary shareholders of the Company in the consolidated income statement.
- (h) Reserves of the Company available for distribution to shareholders of the Company as at 31 December 2010 amounting to HK\$77,343 million (2009 – HK\$77,314 million).