

# report

## of the directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2004.

### **Principal Activities**

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 39 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the financial statements.

### **Results and Appropriations**

The results of the Group for the year ended 31 December 2004 are set out in the consolidated profit and loss account on page 66.

No interim dividend was paid during the year and the Directors do not recommend the payment of any final dividend.

### **Reserves**

Movements in the reserves of the Group and of the Company during the year are set out in note 31 to the financial statements.

### **Fixed Assets**

Details of the movements in fixed assets of the Group are set out in note 12 to the financial statements.

### **Principal Properties**

Details of the principal properties held for investment purposes are set out on page 126.

### **Share Capital**

Details of the movements in share capital of the Company are set out in note 29(b) to the financial statements.

### **Convertible Note**

Details of the convertible note of the Company are set out in note 27 to the financial statements.

### **Four Year Summary**

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on pages 127 and 128.

## Directors

The Directors of the Company during the year were:

### Executive Directors:

Mr. Fok Kin-ning, Canning	
Mr. Lai Kai Ming, Dominic	
Mrs. Chow Woo Mo Fong, Susan	
Mr. Frank John Sixt	(Appointed on 12 March 2004)
Mr. Dennis Pok Man Lui	(Appointed on 29 March 2004)
Mr. Wong King Fai, Peter	(Appointed on 12 March 2004)
Mr. Kan Ka Wing, Frankie	(Appointed on 12 March 2004)
Ms. Chan Wen Mee, May (Michelle)	
Mr. Lam Hon Nam	
Mr. Loh Tiak Koon	(Resigned on 1 October 2004)

### Non-executive Directors:

Mr. Stephen Ingram	(Resigned on 1 October 2004)
Mr. Tuan Lam	
Mr. Yang Chunyao, Paul (alternate to Mr. Tuan Lam)	(Ceased to act as alternate of Mr. Stephen Ingram on 1 October 2004)

### Independent Non-executive Directors:

Mr. Cheng Ming Fun, Paul	(Appointed on 28 September 2004)
Mr. Cheong Ying Chew, Henry	
Dr. Lam Lee G.	

In accordance with Bye-law 86(2) of the Company's Bye-laws, Mr. Cheng Ming Fun, Paul will retire by rotation and being eligible, offer himself for re-election at the forthcoming annual general meeting.

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Lai Kai Ming, Dominic, Ms. Chan Wen Mee, May (Michelle) and Mr. Tuan Lam will retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company received confirmations from the Independent Non-executive Directors of their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company considers all the Independent Non-executive Directors are independent.

The Directors’ biographical details are set out on pages 26 to 29.

## **Directors’ Service Contracts**

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## **Directors’ Interests in Contracts**

No contracts of significance in relation to the businesses of the Company and its subsidiaries to which the Company, its fellow subsidiaries or its holding companies was a party in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## **Connected Transactions**

(1) On 28 January 2004, Hutchison Global Communications Investment Holding Limited (then known as “Hutchison Global Communications Holdings Limited”) (the “HGC Vendor”), the Company and Hutchison International Limited (“HIL”) entered into an agreement (the “HIL Agreement”) pursuant to which the Company conditionally agreed to acquire the entire issued share capital of Hutchison Global Communications Investments Limited (“HGC”) from HGC Vendor (the “HGC Share Sale Transaction”). The HIL Agreement provided that the consideration for the HGC Share Sale Transaction, which amounted to HK\$7,100 million, was to be satisfied by:

- i) as to HK\$3,900 million, by the issue and allotment of 4,875 million new shares in the Company (the “HGC Consideration Shares”) to HGC Vendor credited as fully paid at an agreed issue price of HK\$0.80 per share; and
- ii) as to the remaining HK\$3,200 million, by the issue to the HGC Vendor (or such other subsidiary of Hutchison Whampoa Limited (“HWL”) as the HGC Vendor may direct) of a note with a face value of HK\$3,200 million convertible into a total of 3,333,333,333 new shares in the Company at the initial conversion price of HK\$0.96 per share subject to adjustment, credited as fully paid (the “HGC Consideration Convertible Note”).

Completion of the above transaction took place on 12 March 2004. Prior to such completion, HIL was a connected person of the Company by virtue of being a substantial shareholder of the Company. The HGC Share Sale Transaction constituted a connected transaction for the Company under the Listing Rules.

- (2) On 12 March 2004, HIL and the Company entered into an agreement pursuant to which HIL agreed to make available to the Company an interest-bearing unsecured loan facility of a principal amount of HK\$1,000 million (the “Facility”). HIL’s rights and benefits under the Facility were assigned to Hutchison Telecommunications International (HK) Limited (“HTIHK”), an indirect subsidiary of HIL, in September 2004. The interest rate was based on normal commercial terms with reference to inter-bank market lending rates. According to the terms of the Facility, on each of the first and second anniversary dates of 12 March 2004, the Company will repay the principal amount drawn and remain outstanding as at, and pay all accrued (but not paid) interest up to and including, such anniversary date under the Facility by the issue of a Facility Convertible Note of a principal amount equal to the aggregate of such outstanding principal amount and accrued (but not paid) interest under the Facility. The provision of the Facility constituted a connected transaction for the Company under the Listing Rules.
- (3) An interest-bearing unsecured loan facility of up to HK\$4,000 million was made available by HIL to Hutchison Global Communications Limited (“HGCL”), an indirect wholly owned subsidiary of the Company, of which a principal amount of approximately HK\$3,400,000,000 was drawn and outstanding as at 31 December 2003. HIL assigned its rights and benefits under this loan facility to HTIHK in September 2004. Upon completion of the HGC Share Sale Transaction and the entering into of the agreement relating to the Facility on 12 March 2004, such facility of a revised facility amount of up to HK\$3,400,000,000 (the “Existing Facility”) continued to be made available to HGCL up to the maturity date of 17 July 2008, on normal commercial terms. The provision of the Existing Facility constituted a connected transaction for the Company under the Listing Rules.
- (4) Continuing Connected Transactions
- (A) On 7 July 2003 and 15 July 2003, the Company, Hutchison Whampoa IT Services S.à r.l. (“HWIT”) and Hutchison 3G UK Limited (“H3GUK”) entered into framework agreements (the “Framework Agreements”) respectively which set out the basis upon which certain software application services (the “Software Application Services”) were to be provided from time to time by the Company upon request of HWIT and H3GUK. Any requisition for provision of services by the Company would be effected by the issue of purchase orders which should contain, among others, a description of the services required to be provided and the amount of fees and expenses payable by HWIT and H3GUK to the Company for the performance of such services. The amount of fees is to be determined on a case by case basis by reference to, inter alia, the personnel and the man-hour required at the rates set out in the respective Framework Agreements which were determined with reference to the costs of the Company and the relevant market rate of the services required. Both HWIT and H3GUK are indirect subsidiaries of HIL, the then controlling shareholder of the Company. The provision of the Software Application Services pursuant to the Framework Agreements constituted continuing connected transactions for the Company under the Listing Rules.

## Grant of Software Application Services Waiver

On 2 January 2004, the Stock Exchange granted to the Company a conditional waiver in respect of the continuing connected transactions entered into pursuant to the Framework Agreements from strict compliance with the requirement of disclosure by press announcement on each occasion they arise (the “Software Application Services Waiver”).

The aggregate amount attributable to the Software Application Services provided pursuant to the Framework Agreements in the year ended 31 December 2004 (the “2004 Software Application Services Connected Transactions”) was approximately HK\$1,111,000.

As required under the Software Application Services Waiver, all the Independent Non-executive Directors of the Company reviewed the 2004 Software Application Services Connected Transactions, and confirmed that:

- (a) the 2004 Software Application Services Connected Transactions had been entered into (i) in the ordinary and usual course of the Group’s business; (ii) conducted either on normal commercial terms; and (iii) in accordance with the terms of each of the agreements governing such transactions; and
- (b) the aggregate annual amounts of the 2004 Software Application Services Connected Transactions for the financial year ended 31 December 2004 did not exceed the higher of HK\$10,000,000 or 3% of the audited consolidated net tangible asset value of the Group as disclosed in its latest published annual report.

The Company had received from the auditors a letter confirming that the 2004 Software Application Services Connected Transactions:

- (a) have been approved by the Board of Directors of the Company;
- (b) where involving the provision of goods and services, were entered into in accordance with the pricing policies of the Group;
- (c) had agreements governing them and they were entered into in accordance with the terms of the agreements; and
- (d) did not exceed the caps as stated in the Software Application Services Waiver.

- (B) (a) In the financial year ended 31 December 2004, the Group provided local and international telecommunications services (including, among others, leased line services), mobile interconnection services, mobile number portability (MNP) porting and dipping services, Internet access bandwidth (with value added services) and Internet and web hosting services to HWL, its subsidiaries and associates (together the “HWL Group”) (the “Telecommunications and Internet Services”). Local and international telecommunications services had been provided to the HWL Group since about 1995 following the issuance of the Fixed Telecommunications Network Services (FTNS) licence to the Group whereas certain other services were first provided at around the time when such services were available from the relevant member of the Group. The provision of the Telecommunications and Internet Services during the period was on normal commercial terms and in the ordinary and usual course of business of the Group. The services were charged by the Group at rates no less favourable to the Group than those provided to independent third parties. As HWL is a connected person of the Company, the Telecommunications and Internet Services constituted continuing connected transactions for the Company under the Listing Rules.
- (b) During the financial year ended 31 December 2004, Hutchison GlobalCentre Limited (“Hutchison GlobalCentre”), an indirect wholly owned subsidiary of the Company, provided data centre services to the HWL Group (the “Data Centre Services Arrangements”). Such data centre services included data centre facilities (including power supply, telecommunications connectivity, air-conditioning, and fire prevention and security systems), hardware and software management and co-location services. Some of such services had been provided to the HWL Group since 2000. The provision of such services was on normal commercial terms and in the ordinary and usual course of business of Hutchison GlobalCentre. Such services were also charged by the Group at rates no less favourable to the Group than those provided to independent third parties. As HWL is a connected person of the Company, the Data Centre Services Arrangements constituted continuing connected transactions for the Company under the Listing Rules.
- (c) During the financial year ended 31 December 2004, the Group (as lessee or licensee) entered into various lease and licence arrangements with various members of the HWL Group (as landlord or licensor) (the “Lease and Licence Arrangements”). The Lease Arrangements were in respect of building spaces and other premises for use by the Group as offices or for other business purposes, and will expire in 2004 to 2006 (with options to renew in some cases). The Lease and Licence Arrangements had been entered into on normal commercial terms and on terms no less favourable to the Group than those offered by landlords and licensors who were independent third parties. As HWL is a connected person of the Company, the Lease and Licence Arrangements constituted continuing connected transactions for the Company under the Listing Rules.

- (d) Under an agreement dated 1 November 2002 between A.S. Watson Group (HK) Limited (“Watson”, which is an indirect wholly owned subsidiary of HWL) and HGCL as amended, Watson was appointed as an agent for HGCL and its subsidiaries to receive at retail outlets operated by Watson in Hong Kong customer payments for services rendered by HGCL and its subsidiaries (the “Bill Collection Services”). HGCL was required to pay to Watson an agreed amount of commission per transaction, depending on the number of transactions processed per month, subject to an agreed minimum commission per month if the number of transactions per month is less than an agreed minimum. HGCL was also responsible for paying any EPS, credit card or Octopus card charges at the rates notified by Watson. The agreement commenced on 1 November 2002 and is expected to continue until 31 December 2006. The Bill Collection Services had been provided on normal commercial terms. As Watson is a member of the HWL Group, the provision of the Bill Collection Services constituted continuing connected transactions for the Company under the Listing Rules.
- (e) On 12 March 2004, HIL and the Company entered into an agreement in relation to certain shared services arrangements (the “Shared Services Arrangements”) with the HWL Group. The services including, among others, legal and regulatory services, company secretarial services, financial, accounting, tax and internal audit support services, provident fund management services, participation in the HWL Group’s pension scheme, participation in the HWL Group’s medical scheme, participation in the HWL Group’s insurance scheme, shared use of accounting software system and related services, information technology services, participation in the HWL Group’s procurement projects with third party vendors/suppliers, other staff benefits and staff training services, use of the HWL Group’s club debentures, company functions and activities, electrical and mechanical support services, electronic mail messaging services, sharing of electricity services, and mail and courier services. The Group agreed to bear the costs and expenses incurred in connection with the provision of such services. In addition, the Group agreed to pay a fee to the HWL Group. The Shared Services Arrangements constituted continuing connected transactions for the Company under the Listing Rules.

#### Grant of March 2004 Waivers

On 8 March 2004, the Stock Exchange granted to the Company conditional waivers (“March 2004 Waivers”) in respect of the provision of the Telecommunications and Internet Services, the Data Centre Services Arrangements, the Lease and Licence Arrangements, the provision of the Bill Collection Services and the Shared Services Arrangements (together the “Various Continuing Connected Transactions”). The March 2004 Waivers comprise conditional waivers from (1) the requirement of disclosure by press announcement as stipulated in Chapter 14 (or Chapter 14A with effect from 31 March 2004) of the Listing Rules in connection with the Various Continuing Connected Transactions on each occasion that they arise; and (2) the requirement of disclosure by press announcement, circular to shareholders and independent shareholders’ approval for the provision of the Telecommunications and

Internet Services and the Data Centre Services Arrangements as stipulated in Chapter 14 (or Chapter 14A with effect from 31 March 2004) of the Listing Rules during the three financial years ending 31 December 2006.

The aggregate amounts attributable to the Various Continuing Connected Transactions entered into in the year ended 31 December 2004 (the “2004 Various Continuing Connected Transactions”) were as follows:

<b>2004 Various Continuing Connected Transactions</b>	<b>Aggregate Amount for 2004</b> <b>HK\$ million</b>
Telecommunications and Internet Services	266.14
Data Centre Services Arrangements	19.67
Bill Collection Services	3.36
Shared Services Arrangements	8.00
	<b>Highest Amount Under Individual</b> <b>Lease or Licence</b> <b>HK\$ million</b>
Each Individual Lease and Licence Arrangement	8.70

As required under the March 2004 Waivers, all the Independent Non-executive Directors of the Company reviewed the 2004 Various Continuing Connected Transactions, and confirmed that:

- (a) the 2004 Various Continuing Connected Transactions had been entered into (i) in the ordinary and usual course of the Group’s business; (ii) on an arm’s length basis and conducted either on normal commercial terms or on terms no less favourable to the Group than those available to or from (as appropriate) independent third parties; and (iii) in accordance with the terms of agreements governing the relevant connected transactions or on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (b) the aggregate annual amounts of the 2004 Various Continuing Connected Transactions for the year ended 31 December 2004 did not exceed the cap amounts as stated in the March 2004 Waivers.



The Company had received from the auditors a letter confirming that the 2004 Various Continuing Connected Transactions:

- (a) have been approved by the Board of Directors of the Company;
- (b) where involving the provision of goods and services, were entered into in accordance with the pricing policies of the Group;
- (c) had agreements governing them and they were entered into in accordance with the terms of such relevant agreements; and
- (d) did not exceed the respective caps as stated in the March 2004 Waivers.

All the above connected and continuing connected transactions are also considered to be related party transactions under the Hong Kong Statement of Standard Accounting Practice No. 20 "Related Party Disclosures".

### Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2004, the interests and short positions of the Directors and Chief Executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and Chief Executive of the Company were deemed or taken to have under such provisions of the SFO) or which were required to be and were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") adopted by the Company were as follows:

#### (I) Interests and short positions in the shares, underlying shares and debentures of the Company

##### *Long positions in the shares/underlying shares of the Company*

Name of Director	Capacity	Nature of Interests	Number of Shares Held	Number of Underlying Shares Held	Approximate % of Shareholding
Fok Kin-ning, Canning	Interest of a controlled corporation	Corporate interest	10,000,000 <sup>(1)</sup>	–	0.14%
Wong King Fai, Peter	Beneficial owner	Personal interest	–	15,000,000 <sup>(2)</sup>	0.22%
Kan Ka Wing, Frankie	Beneficial owner	Personal interest	–	10,000,000 <sup>(3)</sup>	0.14%
Lam Hon Nam	(i) Interest of a controlled corporation	(i) Corporate interest	54,162,000 <sup>(4)</sup>	– )	
	(ii) Beneficial owner	(ii) Personal interest	–	400,000 )	0.79%

Notes:

- (1) Such shares were held by a company which is equally owned by Mr. Fok Kin-ning, Canning and his spouse.
- (2) Such underlying shares represented the interest in share options for 15,000,000 ordinary shares of the Company granted to Mr. Wong King Fai, Peter by the Company.
- (3) Such underlying shares represented the interest in share options for 10,000,000 ordinary shares of the Company granted to Mr. Kan Ka Wing, Frankie by the Company.
- (4) Such shares were held by Lam Ma & Wai Limited, a company incorporated in the British Virgin Islands, which is wholly owned by Mr. Lam Hon Nam.

## (II) Interests and short positions in the shares, underlying shares and debentures of the associated corporations

### (A) Long positions in the shares/underlying shares of HWL

Name of Director	Capacity	Nature of Interests	Number of Shares of HWL Held	Number of Underlying Shares of HWL Held	Approximate % of Shareholding of HWL
Fok Kin-ning, Canning	Interest of a controlled corporation	Corporate interest	2,510,875 <sup>(1)</sup>	757,939 <sup>(2)</sup>	0.0767%
Lai Kai Ming, Dominic	Beneficial owner	Personal interest	50,000	–	0.0012%
Chow Woo Mo Fong, Susan	Beneficial owner	Personal interest	150,000	–	0.0035%
Frank John Sixt	Beneficial owner	Personal interest	50,000	–	0.0012%
Wong King Fai, Peter	Interest of spouse	Family interest	22,000	–	0.0005%

Notes:

- (1) Such shares in HWL were held by a company which is equally owned by Mr. Fok Kin-ning, Canning and his spouse.
- (2) Such underlying shares in HWL were the maximum number of shares that might be interested in under the US\$5,000,000 Notes due 2005 issued by BNP Paribas and were held by a company which is equally owned by Mr. Fok Kin-ning, Canning and his spouse.

**(B) Long positions in the shares/underlying shares of Hutchison Telecommunications International Limited (“HTIL”)**

Name of Director	Capacity	Nature of Interests	Number of Shares of HTIL Held	Number of Underlying Shares of HTIL Held	Approximate % of Shareholding of HTIL
Fok Kin-ning, Canning	Interest of a controlled corporation	Corporate interest	250,000 <sup>(1)</sup>	–	0.0056%
Chow Woo Mo Fong, Susan	Beneficial owner	Personal interest	250,000	–	0.0056%
Frank John Sixt	Beneficial owner	Personal interest	–	255,000 <sup>(2)</sup>	0.0057%
Dennis Pok Man Lui	Beneficial owner	Personal interest	100,000	–	0.0022%

Notes:

(1) Such shares were held by a company which is equally owned by Mr. Fok Kin-ning, Canning and his spouse.

(2) 17,000 American Depositary Shares (each representing 15 ordinary shares) were held by Mr. Frank John Sixt.

**(C) Long positions in the shares, underlying shares and debentures of other associated corporations**

As at 31 December 2004, Mr. Fok Kin-ning, Canning had the following interests:

- (i) (a) 1,100,000 ordinary shares, representing approximately 0.162% of the then issued share capital, in Hutchison Telecommunications (Australia) Limited (“HTAL”) comprising personal and corporate interests in 100,000 and 1,000,000 ordinary shares respectively; and
  - (b) 1,474,001 underlying shares in HTAL comprising personal and corporate interests in 134,000 and 1,340,001 underlying shares respectively on conversion of the listed and physically settled 5.5% Unsecured Convertible Notes due 2007 issued by HTAL;
- (ii) corporate interests in 5,000,000 ordinary shares, representing approximately 0.075% of the then issued share capital, in Hutchison Harbour Ring Limited;

- (iii) corporate interests in a nominal amount of €20,900,000 in the 5.875% Notes due 2013 issued by Hutchison Whampoa Finance (03/13) Limited; and
- (iv) corporate interests in a nominal amount of US\$6,500,000 in the 6.25% Notes due 2014 issued by Hutchison Whampoa International (03/33) Limited.

Mr. Fok Kin-ning, Canning held the above personal interests in his capacity as beneficial owner and held the above corporate interests through a company which is equally owned by Mr. Fok and his spouse.

Mr. Lam Hon Nam in his capacity as beneficial owner had, as at 31 December 2004, personal interests in (i) 918,800 non-voting deferred shares, representing approximately 45.94% of the then issued share capital, in Vanda Computer & Equipment Company Limited, (ii) 229,700 non-voting deferred shares, representing approximately 45.94% of the then issued share capital, in Vanda Instrument & Equipment Company Limited; and (iii) 150,000 non-voting deferred shares, representing approximately 50% of the then issued share capital, in Vanda Systems & Communications Limited.

Save as disclosed above, as at 31 December 2004, none of the Directors and Chief Executive of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

## Interests and Short Positions of Shareholders Discloseable Under the SFO

So far as is known to any Directors or the Chief Executive of the Company, as at 31 December 2004, other than the interests and short positions of the Directors or the Chief Executive of the Company as disclosed above, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

### (I) Interests and short positions of substantial shareholders in the shares and underlying shares of the Company

#### Long positions in the shares and underlying shares of the Company

Name	Capacity	Number of Shares of the Company Held	Number of Underlying Shares of the Company Held	Approximate % of Shareholding
Hutchison Global Communications Investment Holding Limited ("HGCIHL")	Beneficial Owner	3,626,888,793 <sup>(1)</sup>	–	52.53%
HTI (BVI) Holdings Limited ("HTI(BVI)")	Interest of a controlled corporation	3,626,888,793 <sup>(1)</sup>	–	52.53%
Amber International Holdings Inc. ("Amber")	Interest of controlled corporations	3,626,888,793 <sup>(1)</sup>	–	52.53%
Hutchison Telecommunications International (Cayman) Holdings Limited ("HTI(C)HL")	(i) Beneficial owner	–	3,333,333,333 <sup>(2)</sup>	100.81%
	(ii) Interest of controlled corporations	3,626,888,793 <sup>(1)</sup>	–	
HTIHK	Beneficial owner	–	1,041,666,666 <sup>(3)</sup>	15.09%
HTIL	Interest of controlled corporations	3,626,888,793 <sup>(1)</sup>	4,374,999,999 <sup>(2)(3)</sup>	115.90%
Hutchison Telecommunications Investment Holdings Limited ("HTIHL")	Interest of controlled corporations	3,626,888,793 <sup>(1)</sup>	4,374,999,999 <sup>(2)(3)</sup>	115.90%
Hutchison Telecommunications Limited ("HTL")	Interest of controlled corporations	3,626,888,793 <sup>(1)</sup>	4,374,999,999 <sup>(2)(3)</sup>	115.90%
HIL	Interest of controlled corporations	3,626,888,793 <sup>(1)</sup>	4,374,999,999 <sup>(2)(3)</sup>	115.90%

Name	Capacity	Number of Shares of the Company Held	Number of Underlying Shares of the Company Held	Approximate % of Shareholding
HWL	Interest of controlled corporations	3,626,888,793 <sup>(1)</sup>	4,374,999,999 <sup>(2) (3)</sup>	115.90%
Cheung Kong (Holdings) Limited ("CKH")	Interest of controlled corporations	3,875,632,628 <sup>(4)</sup>	4,374,999,999 <sup>(4)</sup>	119.51%
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	3,875,632,628 <sup>(5)</sup>	4,374,999,999 <sup>(5)</sup>	119.51%
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee and beneficiary of a trust	3,875,632,628 <sup>(6)</sup>	4,374,999,999 <sup>(6)</sup>	119.51%
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee and beneficiary of a trust	3,875,632,628 <sup>(6)</sup>	4,374,999,999 <sup>(6)</sup>	119.51%
Li Ka-shing ("Mr. Li")	(i) Founder of discretionary trusts and interest of controlled corporations	3,875,632,628 <sup>(7)</sup>	4,374,999,999 <sup>(7)</sup>	123.65%
	(ii) Interest of a controlled corporation	286,312,000 <sup>(8)</sup>	–	

## (II) Interests and short positions of other persons in the shares and underlying shares of the Company

### Long positions in the shares of the Company

Name	Capacity	Number of Shares of the Company Held	Number of Underlying Shares of the Company Held	Approximate % of Shareholding
DBS Bank Ltd.	Beneficial Owner	394,883,333 <sup>(9)</sup>	–)	5.72%
DBS Group Holdings Limited	Interest of a controlled corporation	394,883,333 <sup>(9)</sup>	–)	5.72%

# report of the directors

## Notes:

- (1) *HGCIHL is a direct wholly owned subsidiary of HTI(BVI), which in turn is a direct wholly owned subsidiary of Amber, which in turn is a direct wholly owned subsidiary of HTI(C)HL, which in turn is a direct wholly owned subsidiary of HTIL. HTIHK is also a direct wholly owned subsidiary of HTIL, which in turn is a direct subsidiary of HTIHL. HTIHL is a direct wholly owned subsidiary of HTL, which in turn is a direct wholly owned subsidiary of HIL, which in turn is a direct wholly owned subsidiary of HWL. By virtue of the SFO, HWL, HIL, HTL, HTIHL, HTIL, HTI(C)HL, Amber and HTI(BVI) are deemed to be interested in the 3,626,888,793 shares of the Company held by HGCIHL.*
- (2) *By virtue of the SFO, HWL, HIL, HTL, HTIHL and HTIL are deemed to be interested in the 3,333,333,333 underlying shares in the Company derived from a nominal amount of HK\$3,200,000,000 in the 1% unsecured convertible notes due 2009 held by HTI(C)HL.*
- (3) *By virtue of the SFO, HWL, HIL, HTL, HTIHL and HTIL are deemed to be interested in the 1,041,666,666 underlying shares in the Company derived from the facility convertible notes to be issued pursuant to the terms of an unsecured loan facility of HK\$1,000,000,000 held by HTIHK.*
- (4) *Certain subsidiaries of CKH together hold one third or more of the issued share capital of HWL. By virtue of the above, CKH is therefore taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by HWL as a substantial shareholder of the Company under the SFO. CKH is also interested in the share capital of the Company through Cheung Kong Enterprises Limited ("CKE") which is a wholly owned subsidiary of CKH.*
- (5) *TUT1, as trustee of The Li Ka-Shing Unity Trust ("UT1"), together with certain companies which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of one third or more of the voting power at their general meetings ("related companies"), hold more than one third of the issued share capital of CKH. By virtue of the above and the interest of TUT1 as trustee of UT1 and its related companies in the shares of CKH, TUT1 as trustee of UT1 is therefore taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by HWL (together with CKH's interest in the share capital of the Company through CKE) as a substantial shareholder of the Company under the SFO.*
- (6) *Each of TDT1 as trustee of a discretionary trust ("DT1") and TDT2 as trustee of another discretionary trust ("DT2") holds units in UT1. By virtue of the above and its interest of holding units in UT1, each of TDT1 as trustee of DT1 and TDT2 as trustee of DT2 is taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by HWL (together with CKH's interest in the share capital of the Company through CKE) as a substantial shareholder of the Company under the SFO.*
- (7) *Mr. Li is the settlor of each of DT1 and DT2 and may be regarded as a founder of each of DT1 and DT2 for the purpose of the SFO. Mr. Li is also interested in one third of the entire issued share capital of a company owning the entire issued share capital of TUT1, TDT1 and TDT2. By virtue of the above and as a director of CKH, Mr. Li is taken to have a duty of disclosure in relation to the interest in the relevant share capital of the Company held by HWL (together with CKH's interest in the share capital of the Company through CKE) as a substantial shareholder of the Company under the SFO.*
- (8) *Such shares are held by a company of which Mr. Li is interested in the entire issued share capital.*
- (9) *Such shares were beneficially owned by DBS Bank Ltd. which is a wholly owned subsidiary of DBS Group Holdings Limited.*

Save as disclosed above, as at 31 December 2004, there was no other person (other than the Directors or the Chief Executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## Directors' Interests in Competing Business

During the year, the following Directors of the Company had interests in the following businesses (apart from the Company's businesses) conducted through the companies named below, its subsidiaries, associated companies or other investment forms which are considered to compete or be likely to compete, either directly or indirectly, with the principal businesses of the Company conducted during the Period required to be disclosed pursuant to Listing Rule 8.10:

Name	Name of Company	Nature of Interest	Nature of Competing Business
Fok Kin-ning, Canning	HWL	Group Managing Director	– distribution and sale of computer products
	CKH	Executive Director	– information technology and new technology
	Cheung Kong Infrastructure Holdings Limited	Deputy Chairman	– information technology and new technology
	Hanny Holdings Limited	Non-executive Director	– distribution of computer products
Lai Kai Ming, Dominic	HWL	Executive Director	– distribution and sale of computer products
Chow Woo Mo Fong, Susan	HWL	Deputy Group Managing Director	– distribution and sale of computer products
	Cheung Kong Infrastructure Holdings Limited	Executive Director	– information technology and new technology
	TOM Group Limited	Non-executive Director	– systems integration, development of software and computer network systems
Frank John Sixt	HWL	Group Finance Director	– distribution and sale of computer products
	CKH	Non-executive Director	– information technology and new technology
	Cheung Kong Infrastructure Holdings Limited	Executive Director	– information technology and new technology
	TOM Group Limited	Chairman	– systems integration, development of software and computer network systems

As the Board of Directors of the Company is independent of the boards of these entities, the Company has therefore been capable of carrying on its businesses independently of, and at arm's length from, the above businesses.



## Share Options and Directors' Rights to Acquire Shares

The Group operates certain option schemes, details of which are as follows:

### (a) 1995 Option Scheme

Pursuant to an ordinary resolution passed on 22 March 1995, the Company adopted a share option scheme (the "1995 Option Scheme") for the purpose of providing incentive and rewards to eligible participants. On 2 April 2002, the 1995 Option Scheme was terminated and replaced by a new option scheme adopted by the Company on 2 April 2002. Upon the termination of the 1995 Option Scheme, no further options would be offered pursuant thereto. However, the 1995 Option Scheme will in all other respects remain in force to the extent necessary to give effect to the exercise of the outstanding options granted pursuant thereto (the "Outstanding Options"). The Outstanding Options will continue to be valid and exercisable in accordance with the rules of the 1995 Option Scheme.

Eligible participants of the 1995 Option Scheme included employees or Executive Directors of the Company or any of its subsidiaries (the "Employees"). The Directors of the Company are authorised to invite, at their discretion, eligible participants to take up options to subscribe for shares in the Company (the "Shares"). The options are exercisable for a period to be notified by the Board of Directors to each grantee and in any event such period of time should not exceed a period of three years commencing on the expiry of six months after the date on which the option is accepted, provided that no options can be exercised after 21 March 2005. Unless otherwise cancelled or amended, the 1995 Option Scheme was to remain in force for a period of 10 years commencing on 22 March 1995.

The maximum number of Shares in respect of which options were able to be granted (together with Shares issued pursuant to options exercised and Shares in respect of which any options remain outstanding) under the 1995 Option Scheme and any other share option schemes of the Company may exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose Shares issued on exercise of options granted pursuant to the 1995 Option Scheme. No option was able to be granted to any one Employee which, if exercised in full, would have resulted in such Employee becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued to him or her under the 1995 Option Scheme, would exceed 25% of the aggregate number of Shares for the time being issued under the 1995 Option Scheme.

The offer of a grant of share options could be accepted upon payment of a nominal consideration of HK\$1 in total by the grantee. The vesting period of the share options was determinable by the Directors.

The subscription price for Shares under the 1995 Option Scheme was a price determined by the Board of Directors of the Company and notified to each grantee and was the higher of: (i) a price being not less than 80% of the average closing price of the Shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the option granted to a grantee; and (ii) the nominal value of the Share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the 1995 Option Scheme during the year:

Name or Category of Participant	Date of Grant of Share Options*	Number of Share Options at 1 January 2004	Exercised During the Year	Cancelled/ Expired During the Year	Number of Share Options at 31 December 2004	Exercise Period of Share Options	Exercise Price of Share Options** HK\$	Price of Company's Share***	
								Date of Grant of Share Options HK\$	Date of Exercise of Share Options HK\$
<b>Directors</b>									
Lam Hon Nam	12.7.2000	1,000,000	-	(1,000,000)	-	13.1.2001 to 12.1.2004	2.20	2.75	-
	2.5.2001	800,000	-	(800,000)	-	2.11.2001 to 1.11.2004	0.81	1.02	-
		1,800,000	-	(1,800,000)	-				
<b>Other Employees</b>									
In aggregate	12.7.2000	3,620,000	-	(3,620,000)	-	12.1.2001 to 11.1.2004	2.20	2.75	-
	2.5.2001	3,170,000	(1,700,000)	(1,470,000)	-	2.11.2001 to 1.11.2004	0.81	1.02	1.05
		6,790,000	(1,700,000)	(5,090,000)	-				
Total:		8,590,000	(1,700,000)	(6,890,000)	-				

\* The vesting period of the share options was from the date of the grant until the commencement of the exercise period and only 50% of the options were able to be exercised within the first year from the date on which the options are accepted.

\*\* The exercise price of the share options is subject to adjustment, in accordance with the provisions of the share option scheme, in the event of an alteration in the capital structure of the Company.

\*\*\* The price of the Shares disclosed as at the date of grant of share options was the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Shares disclosed as at the date of exercise of share options was the weighted average closing price of the Shares immediately before the dates on which the options were exercised.

The options are exercisable for a period of three years commencing on the expiry of six months after the date on which the option was accepted, provided that no options may be exercised after 21 March 2005.

At the balance sheet date, there was no share options outstanding under the 1995 Option Scheme.

## **(b) Share option schemes of subsidiaries**

On 21 May 2001, the Company approved the adoption by certain subsidiaries (the “Subsidiaries”) of their respective share option schemes (collectively the “Subsidiaries’ Scheme”). The purpose of the adoption of the Subsidiaries’ Scheme is to provide greater incentive to the Subsidiaries’ employees, thereby improving their productivity and helping to retain key staff. The board of directors of the Subsidiaries may, at their discretion, offer to grant options to subscribe for shares in the respective Subsidiaries to employees and any executive directors of the Subsidiaries. Subject to any earlier termination by the respective Subsidiaries, the Subsidiaries’ Scheme shall be valid and effective for a period of 10 years from 21 May 2001. The issue of the shares in the respective Subsidiaries pursuant to the exercise of an option by the grantee shall be conditional upon the unconditional completion of the listing of the shares of the respective Subsidiaries (“Subsidiary Share”) on any internationally recognised stock exchange. Subject to the above, an option may be exercised in accordance with the terms of the Subsidiaries’ Scheme, but in any event shall not exceed 10 years commencing from the date of grant of the option.

The total number of Subsidiary Shares which can be subscribed through exercising all options granted under the Subsidiaries’ Scheme and any other share option scheme of the respective Subsidiaries shall in aggregate not exceed 10% of the total number of the Subsidiary Shares in issue from time to time (excluding any Subsidiary Shares issued pursuant to the Subsidiaries’ Scheme). No option may be granted to any one person which if exercised in full would result in the total number of the Subsidiary Shares already issued and issuable to the grantee under all the options previously granted to him, and the proposed option, exceeding 25% of the total number of Subsidiary Shares subject to the Subsidiaries’ Scheme.

The offer of a grant of share options may be accepted upon payment of a nominal consideration by the grantee of HK\$1 for the respective Subsidiaries incorporated in Hong Kong, or an appropriate amount in the currency of the jurisdiction, if not in Hong Kong, in which the respective Subsidiaries have their principal place of business.

The minimum exercise price for the options granted under the Subsidiaries’ Scheme shall be the higher of (i) the par value per the respective Subsidiary Shares; or (ii) 80% of the net asset value of the respective Subsidiaries, as stated in the latest audited financial statements or, if audited financial statements are not available, the latest management accounts of the respective Subsidiaries, divided by the number of the respective Subsidiary Shares in issue at the date of the latest audited financial statements or latest management accounts (as the case may be).

As at the balance sheet date, no options have been granted under the Subsidiaries’ Scheme.

### (c) 2002 Option Scheme

Following the amendments made to Chapter 17 of the Listing Rules which came into effect on 1 September 2001, no option may be granted under the 1995 Option Scheme unless such grant is made in compliance with the amended rules. To enable the Company to continue to reward and provide incentives to, and to strengthen the Group's business relationship with the prescribed classes of participants who may contribute to the growth and development of the Group (who now became classes of potential grantees of the share options as expanded by the Listing Rules), a new option scheme (the "2002 Option Scheme") was adopted by the Company on 2 April 2002 and at the same time, the 1995 Option Scheme was terminated. The 2002 Option Scheme will remain in force for 10 years commencing on 2 April 2002.

Under the 2002 Option Scheme, the eligibility of the participants for the grant of any options shall be determined by the Directors of the Company from time to time on the basis of their contribution to the development and growth of the Group. The Directors may, at their discretion, invite any person belonging to any of the following classes of participants to take up options for Shares:

- (a) any employee/consultant or proposed employee/consultant (including Executive Director but excluding any Non-executive Director) of the Company, any of its subsidiaries or any entity (the "Invested Entity") in which a member of the Group holds any equity interest, including any Executive Director of the Company, any of such subsidiaries or any Invested Entity;
- (b) any Non-executive Directors (including Independent Non-executive Directors) of the Company, any of its subsidiaries or any Invested Entity;
- (c) any supplier of goods or services to any member of the Group or any Invested Entity;
- (d) any customer of any member of the Group or any Invested Entity;
- (e) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;
- (f) any shareholder of any member of the Group or any Invested Entity, or any holder of any securities issued by any member of the Group or any Invested Entity;
- (g) any other group or class of participants who has contributed or may contribute by way of a joint venture, business alliance or other business arrangement to the development and growth of the Group; and
- (h) any company wholly owned by one or more persons belonging to any of the above classes of participants.

The maximum number of Shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the 2002 Option Scheme and any other share option scheme must not in aggregate exceed 30% of the relevant class of shares of the Company (or its subsidiaries) in issue from time to time.

The total number of Shares which may be allotted and issued upon the exercise of all options to be granted under the 2002 Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the relevant class of shares of the Company in issue at the date of approval of the limit by the Company in a general meeting.

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the 2002 Option Scheme and any other share option scheme of the Group, including both exercised or outstanding options, to each participant in any 12-month period, shall not exceed 1% of the issued share capital of the Company for the time being unless approved by the shareholders in a general meeting.

Share options granted to a Director, Chief Executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors. Where any grant of option to a substantial shareholder or an Independent Non-executive Director of the Company, or any of their associates would result in the Shares issued and to be issued upon the exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (a) representing in aggregate over 0.1% of the Shares in issue; and (b) having an aggregate value (based on the closing price of the Shares at the date of each grant) in excess of HK\$5 million, such further grant of options must be approved by the shareholders in a general meeting.

Any change in the terms of the options granted to a substantial shareholder or an Independent Non-executive Director, or any of their associates must be approved by the shareholders in a general meeting.

An option may be accepted by a participant by the payment of a nominal value of HK\$1. An option may be exercised in accordance with the terms of the 2002 Option Scheme at any time during a period to be determined on the date of offer of grant of the option and notified by the Directors to each grantee. The exercise period may commence once the offer of the grant is accepted by the grantee within the prescribed time from the date of its offer and shall end, in any event, not later than 10 years from the date on which the offer of the grant of the options was made, subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the 2002 Option Scheme for the holding of an option before it can be exercised.

The exercise price of the Shares under the 2002 Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer of the grant; (ii) the average closing price of the Shares for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The Directors do not consider it appropriate to disclose the value of the options granted under the 2002 Option Scheme during the year ended 31 December 2004 as any such valuation would be subject to a number of assumptions.

The following share options were outstanding under the 2002 Option Scheme during the year:

Name or Category of Participant	Date of Grant of Share Options	Number of Share Options Held at 1 January 2004	Granted During the Year	Exercised During the Year	Expired/ Cancelled During the Year	Number of Share Options Held at 31 December 2004	Exercise Period of Share Options	Exercise Price of Share Options*** HK\$	Price of Company's Share****	
									At Grant Date of Share Options HK\$	At Exercise Date of Share Options HK\$
<b>Directors</b>										
Loh Tiak Koon <sup>#</sup>	2.4.2002*	20,000,000	-	-	(20,000,000)	-	3.4.2003 to 2.4.2006	0.886	0.880	-
Wong King Fai, Peter	19.8.2004**	-	15,000,000	-	-	15,000,000	19.8.2004 to 18.8.2008	0.480	0.480	-
Kan Ka Wing, Frankie	19.8.2004**	-	10,000,000	-	-	10,000,000	19.8.2004 to 18.8.2008	0.480	0.480	-
		20,000,000	25,000,000	-	(20,000,000)	25,000,000				
<b>Other Employees</b>										
In aggregate	2.5.2002*	9,850,000	-	-	(3,000,000)	6,850,000	2.5.2003 to 1.5.2006	0.940	0.930	-
	2.5.2003*	7,250,000	-	(1,700,000)	(1,750,000)	3,800,000	2.5.2004 to 1.5.2007	0.340	0.315	0.423
	16.5.2003*	4,750,000	-	(582,000)	(3,418,000)	750,000	16.5.2004 to 15.5.2007	0.410	0.410	0.481
	19.8.2004**	-	87,000,000	-	(7,000,000)	80,000,000	19.8.2004 to 18.8.2008	0.480	0.480	-
		21,850,000	87,000,000	(2,282,000)	(15,168,000)	91,400,000				
Total:		41,850,000	112,000,000	(2,282,000)	(35,168,000)	116,400,000				

- # *Mr. Loh Tiak Koon resigned as Director of the Company on 1 October 2004.*
- \* *The share options are exercisable, subject to the vesting scale, commencing on the date on which the options are accepted to the earlier of the options lapses and the date falling four years from the date of grant of the options. One third of the options are vested on the first anniversary of the date of grant and one-thirty sixth of which are vested equally on a monthly basis thereafter.*
- \*\* *The share options are exercisable subject to the vesting schedule of which approximately one-third of the options will be vested on 19 August 2005 and 19 August 2006 respectively and the balance of the options will be vested on 19 August 2007.*
- \*\*\* *The exercise price of the share options is subject to adjustment, in accordance with the provisions of the share option scheme, in the event of an alteration in the capital structure of the Company.*
- \*\*\*\* *The price of the Shares disclosed as at the date of grant of share options was the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Shares disclosed as at the date of exercise of share options was the weighted average closing price of the Shares immediately before the dates on which the options were exercised.*

At the balance sheet date, the Company had 116,400,000 share options outstanding under the 2002 Option Scheme, which represented approximately 1.7% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 116,400,000 additional ordinary shares of the Company and additional share capital of HK\$11,640,000 and share premium of HK\$46,798,500 (before issue expenses).

### **Pre-emptive Rights**

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new Shares on a pro-rata basis to existing shareholders.

### **Purchase, Sale or Redemption of Shares**

During the year, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's ordinary shares. In addition, the Company has not redeemed any of its ordinary shares during the year.

### **Management Contracts**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company, between the Company and its controlling shareholder or any of the controlling shareholder's subsidiaries, were entered into or existed during the year.

## Major Customers and Suppliers

During the year, the Group sold less than 30% of its goods and services to its five largest customers.

The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

Purchases	
– the largest supplier	19%
– five largest suppliers combined	47%

As at 31 December 2004:

- (a) Mrs. Chow Woo Mo Fong, Susan held 46,762 shares in PCCW Limited, one of the five largest major suppliers of the Company; and
- (b) HWL, a substantial shareholder of the Company, held 36,726,857 shares in PCCW Limited.

Save as disclosed above, none of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had a beneficial interest in the Group's five largest suppliers noted above.

## Public Float

As at the date of this report, based on information publicly available to the Company and within the knowledge of our Directors, approximately 38% of the issued share capital of the Company was held by the public.

## Auditors

Pursuant to the ordinary resolution passed at the special general meeting held on 17 December 2004, Messrs. PricewaterhouseCoopers, were appointed as the auditors of the Company to fill the casual vacancy following the resignation of Messrs. Ernst & Young, and to hold office until the conclusion of the next annual general meeting of the Company.

The financial statements have been audited by Messrs. PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment.

By order of the Board

**Edith SHIH**

*Company Secretary*

Hong Kong, 7 March 2005