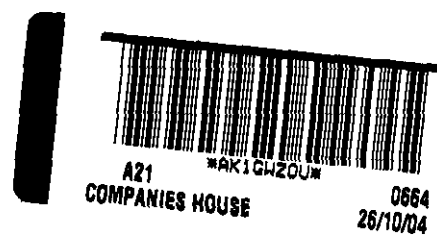


**Hutchison 3G UK Holdings Limited**

**Registered Number 3918124**

**Annual Report**

**Year Ended 31 December 2003**



# Hutchison 3G UK Holdings Limited

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# Hutchison 3G UK Holdings Limited

## Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2003.

## Principal activities and review of the business, and future developments

Hutchison 3G UK Holdings Limited's (the "Company") principal activity is to act as a holding company for its wholly owned subsidiary, Hutchison 3G UK Limited. The principal activity of the Company and its subsidiary, (together, the "Group") is the provision of third generation video multi-media and communication services.

Towards the end of 2002, the Hutchison Whampoa Group unveiled its brand identity 3 for its third generation video mobile multi-media and communication services worldwide. 3 officially launched its service offering in the UK during the first half of 2003.

The Group continued to roll out its network and at the year end, over 5,000 cell sites were in operation with a footprint coverage of over 74% of the population and over 99% coverage via a 2G national roaming agreement with O2.

Promotional offerings in the Summer of 2003 were well received and all of the first generation of 3G handsets delivered by suppliers were sold. Although committed to develop, manufacture and deliver a significantly enhanced second generation of 3G handsets for sale during the third quarter, suppliers only made limited deliveries, seriously impairing the Company's ability to increase its customer base in the fourth quarter of 2003.

In early 2004, the Group announced the launch of 'Threepay', its first 'Pay-As-You-Go' offer to customers who prefer to pre-pay for their mobile service.

During early 2004 the availability of next generation handsets has improved significantly and the Company's supplies have commenced delivery of new handset models in commercial quantities. As a result, sales have progressed well.

## Post balance sheet events

Particulars of significant events since the year end are set out in Note 30 to the financial statements.

# Hutchison 3G UK Holdings Limited

## Directors' Report (continued)

### Research and development

The Group continues an active research and development programme for the enhancement of third generation mobile video multi-media and communication services.

### Results and dividends

The Group's loss for the year amounted to £972,496,000 (2002: £148,897,000). The Directors do not recommend the payment of a dividend (2002: nil).

### Directors and their interests

The Directors who held office during the year and changes to Directors since year end are as follows:

Anette Bordes	Appointed 26/03/2003 and ceased to act 09/05/2003
- alternate director to Stanley Miller	
Susan Chow	Resigned 13/05/2003 and re-appointed 20/08/2004
Lord Derwent LVO	Resigned 13/05/2003 and re-appointed 20/08/2004
Paul van Doorn	Appointed 26/06/2003 and resigned 27/05/2004
Canning Fok	
Robert Fuller	Appointed 13/05/2003
Akira Hirooka	Resigned 26/06/2003
Marcus de Jong	Resigned 07/11/2003
Seiji Kawamura	Resigned 27/05/2004
Dominic Lai	Appointed 20/08/2004
Victor Li	
Stanley Miller	Resigned 07/11/2003
Kyoji Murakami	Resigned 27/05/2004
Simon Neathercoat	Ceased to act 26/03/2003, re-appointed 09/05/2003,
- alternate director to Stanley Miller	ceased to act 04/09/2003, re-appointed 29/09/2003 and ceased to act 07/11/2003
Vincenzo Novari	Appointed 13/05/2003
James Roosevelt	
- alternate director to Marcus de Jong	Ceased to act 07/11/2003
- alternate director to Stanley Miller	Appointed 04/09/2003 and ceased to act 29/09/2003
Edith Shih	
Frank Sixt	
Colin Tucker	

The interests of Directors in shares in or debentures of the Company or any body corporate of the same group as at 31 December 2003 and, if applicable, as at the beginning of the year ended 31 December 2003 (or, if not then a Director, when he or she became one) as required to be recorded in the register maintained under section 325 of the Companies Act 1985 were as follows:

# Hutchison 3G UK Holdings Limited

## Directors' Report (continued)

### (a) Interests in the Company

Dr. Colin Tucker had, as at 1 January 2003 and 31 December 2003, an option over 9,122,500 shares in the Company. Subject to compliance with applicable legal and regulatory requirements of the Company and any of its parent companies, options issued under the scheme will vest and be exercisable partly on the initial public offering of shares in the Company and partly at predetermined dates thereafter. The expiry date for these options is 20 April 2011.

### (b) Interests in other bodies corporate of the group

Mr. Canning Fok had: (i) as at 1 January 2003, a corporate interest in 2,010,875 shares in Hutchison Whampoa Limited ("HWL") and, as at 31 December 2003, a corporate interest in 2,110,875 shares in HWL, (ii) as at 1 January 2003 and 31 December 2003, a corporate interest in 5,000,000 shares in Hutchison Harbour Ring Limited, (iii) as at 1 January 2003 and 31 December 2003, an interest in 100,000 shares in and a corporate interest in 1,000,000 shares in Hutchison Telecommunications (Australia) Limited ("HTAL"), (iv) as at 1 January 2003 and 31 December 2003, an interest in 134,000 5.5% unsecured convertible notes due 2007 and a corporate interest in 1,340,001 5.5% unsecured convertible notes due 2007 both issued by HTAL, (v) as at 1 January 2003, a corporate interest in a nominal amount of US\$30,000,000 in the 7% notes due 2011 issued by Hutchison Whampoa International (01/11) Limited ("HWI(01/11)") and ceased to have such interest as at 31 December 2003, and (vi) as at 31 December 2003, a corporate interest in a nominal amount of EUR31,900,000 in the 5.875% notes due 2013 issued by Hutchison Whampoa Finance (03/13) Limited.

Mr. Victor Li had, (i) (a) as at 1 January 2003, an interest in 10,470,000 shares in HWL and as at 31 December 2003, an interest in 11,496,000 shares in HWL (see note a), and (b) as at 1 January 2003 and 31 December 2003, a corporate interest in 1,086,770 shares in HWL (see note b), (ii) as at 1 January 2003 and 31 December 2003, an interest in 5,428,000 shares in Cheung Kong Infrastructure Holdings Limited (see note c), (iii) as at 1 January 2003, a corporate interest in a nominal amount of US\$7,000,000 in the 7% notes due 2011 issued by HWI(01/11), and as at 31 December 2003, a corporate interest in a nominal amount of US\$2,000,000 in the 7% notes due 2011 issued by HWI(01/11), and (iv) as at 31 December 2003, a corporate interest in a nominal amount of US\$11,000,000 in the 6.5% notes due 2013 issued by Hutchison Whampoa International (03/13) Limited ("HWI(03/13)").

#### Notes:

- (a) These shares are held by Li Ka-Shing Castle Trustee Company Limited ("TUT3") as trustee of The Li Ka-Shing Castle Trust ("UT3").

The discretionary beneficiaries of each of the two discretionary trusts ("DT3" and "DT4") are, inter alia, Mr. Victor Li, his wife and children. Each of the trustees of DT3 and DT4 holds units in UT3 but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust.

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

As Mr. Victor Li is a discretionary beneficiary of each of DT3 and DT4, and by virtue of the

## Hutchison 3G UK Holdings Limited

### Directors' Report (continued)

above, Mr. Victor Li is taken to have a duty of disclosure in relation to the said shares of HWL held by TUT3 as trustee of UT3.

- (b) These shares are held by certain companies in which Mr. Victor Li is interested in the entire issued share capital.
- (c) These shares are held by Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of The Li Ka-Shing Unity Trust ("UT1"). The entire issued share capital of TUT1 and of the trustees of The Li Ka-Shing Unity Discretionary Trust ("DT1") and another discretionary trust ("DT2") are owned by Li Ka-Shing Unity Holdings Limited ("Unity Holdco"). Mr. Victor Li is interested in one-third of the entire issued share capital of Unity Holdco.  
Each of Li Ka-Shing Unity Trustee Corporation Limited as trustee of DT1 and Li Ka-Shing Unity Trustcorp Limited as trustee of DT2 holds units in UT1 but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust. The discretionary beneficiaries of each of DT1 and DT2 are, inter alia, Mr. Victor Li, his wife and children.

Mrs. Susan Chow had, as at 1 January 2003, an interest in 50,000 shares in HWL and as at 13 May 2003 (date of resignation), an interest in 150,000 shares in HWL.

Lord Derwent had, as at 1 January 2003 and 13 May 2003 (date of resignation), an interest in 15,500 shares in HWL.

Mr. Robert Fuller had, as at 13 May 2003 (date of appointment) and 31 December 2003, an option over 1,490,313 shares in Hutchison 3G Italia S.p.A.

Mr. Vincenzo Novari had, as at 13 May 2003 (date of appointment) and 31 December 2003, an option over 1,490,313 shares in Hutchison 3G Italia S.p.A.

Ms. Edith Shih had: (i) as at 1 January 2003, a personal interest and a family interest in aggregate of 34,600 shares in HWL and as at 31 December 2003, an interest in 27,200 shares in and a family interest in 7,400 shares in HWL, (ii) as at 1 January 2003, an interest in a nominal amount of US\$205,000 in the 6.95% notes due 2007 issued by Hutchison Whampoa Finance (CI) Limited and ceased to have such interest as at 31 December 2003, (iii) as at 1 January 2003, a personal interest and a family interest in aggregate of a nominal amount of US\$400,000 in the 7% notes due 2011 issued by HWI(01/11) and ceased to have such interest as at 31 December 2003, (iv) as at 31 December 2003, an interest in a nominal amount of US\$500,000 and a family interest in a nominal amount of US\$100,000 both in the 6.5% notes due 2013 issued by HWI(03/13), and (v) as at 31 December 2003, an interest in a nominal amount of US\$300,000 and a family interest in a nominal amount of US\$100,000 both in the 6.25% notes due 2014 issued by Hutchison Whampoa International (03/33) Limited.

Mr. Frank Sixt had, as at 1 January 2003 and 31 December 2003, an interest in 50,000 shares in HWL.

Save as disclosed above, as at 31 December 2003, no Director had, according to the register, any interests in shares in or debentures of the Company or any body corporate in the same group, or any right to subscribe for such shares or debentures.

# **Hutchison 3G UK Holdings Limited**

## **Directors' Report (continued)**

### **Employees**

Consultation with employees or their representatives is maintained, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests. Communication with all employees continues through the intranet newsletters, workshops and briefing groups.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and the appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

### **Auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the forthcoming Annual General Meeting.

# Hutchison 3G UK Holdings Limited

## Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently with the exception of the changes arising on the adoption of new accounting standards in the year as explained on page 12 under Note 1(a) "Basis of accounting". They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2003 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**By Order of the Board**



Robert Fuller  
Director

8 September 2004



## Hutchison 3G UK Holdings Limited

### Independent Auditors' Report to the Members of Hutchison 3G UK Holdings Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

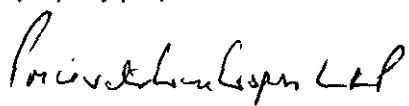
### Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors

London

Date: 8 September 2004

# Hutchison 3G UK Holdings Limited

## Consolidated Profit and Loss Account for the Year Ended 31 December 2003

	Notes	2003 £000	2002 £000
Turnover	2	92,020	-
Cost of sales		(282,397)	-
<b>Gross loss</b>		<b>(190,377)</b>	<b>-</b>
Administrative expenses	3	(663,780)	(125,627)
<b>Operating loss</b>		<b>(854,157)</b>	<b>(125,627)</b>
Interest receivable and similar income	7	14,214	432
Interest payable and similar charges	8	(132,553)	(23,702)
<b>Loss on ordinary activities before taxation</b>		<b>(972,496)</b>	<b>(148,897)</b>
Tax on loss on ordinary activities	9	-	-
<b>Loss on ordinary activities after taxation</b>		<b>(972,496)</b>	<b>(148,897)</b>
<b>Loss for the year</b>	<b>20</b>	<b>(972,496)</b>	<b>(148,897)</b>

The results relate to activities which are continuing.

The Group has no recognised gains or losses other than the loss for the year as shown above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents.

The notes on pages 12 to 28 form an integral part of these financial statements.

# Hutchison 3G UK Holdings Limited

Balance Sheet as at 31 December 2003

	Notes	Group		Company	
		2003 £000	2002 £000	2003 £000	2002 £000
<b>Fixed assets</b>					
UMTS and other licences	10	4,280,772	4,481,598	-	-
Tangible fixed assets	11	1,562,557	1,298,394	-	-
Investments	12	-	-	4,445,487	4,445,487
		<b>5,843,329</b>	<b>5,779,992</b>	<b>4,445,487</b>	<b>4,445,487</b>
<b>Current assets</b>					
Stock	13	56,592	61,784	-	-
Debtors	14	84,512	115,416	1,031,257	-
Investments in liquid resources	23	343,084	-	-	-
Cash at bank and in hand		3,690	-	-	-
		<b>487,878</b>	<b>177,200</b>	<b>1,031,257</b>	<b>-</b>
<b>Creditors</b>					
Amounts falling due within one year	15	(323,759)	(336,208)	-	-
<b>Net current assets/(liabilities)</b>		<b>164,119</b>	<b>(159,008)</b>	<b>1,031,257</b>	<b>-</b>
<b>Total assets less current liabilities</b>		<b>6,007,448</b>	<b>5,620,984</b>	<b>5,476,744</b>	<b>4,445,487</b>
<b>Creditors</b>					
Amounts falling due after more than one year	16	(2,757,318)	(1,398,358)	(1,031,257)	-
<b>Net assets</b>		<b>3,250,130</b>	<b>4,222,626</b>	<b>4,445,487</b>	<b>4,445,487</b>
<b>Capital and reserves</b>					
Called up share capital	19	4,445,487	4,445,487	4,445,487	4,445,487
Profit and loss account	20	(1,195,357)	(222,861)	-	-
<b>Equity shareholders' funds</b>	<b>21</b>	<b>3,250,130</b>	<b>4,222,626</b>	<b>4,445,487</b>	<b>4,445,487</b>

The financial statements on pages 9 to 28 were approved by the Board of Directors on 8 September 2004 and were signed on its behalf by:

  
Robert Fuller  
Director

# Hutchison 3G UK Holdings Limited

## Consolidated Cash Flow Statement for the Year Ended 31 December 2003

	Notes	2003 £000	2002 £000
<b>Net cash outflow from operating activities</b>	<b>22</b>	<b>(589,827)</b>	<b>(52,540)</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		13,648	432
Interest paid, finance costs and similar charges		(97,978)	(70,975)
Loan extension fees paid		(16,298)	-
Net cash outflow from returns on investments and servicing of finance		(100,628)	(70,543)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(254,068)	(818,426)
Purchase of licences		(13,642)	(10,800)
Net cash outflow from capital expenditure and financial investment		(267,710)	(829,226)
<b>Net cash outflow before use of liquid resources and financing</b>		<b>(958,165)</b>	<b>(952,309)</b>
<b>Management of liquid resources</b>	<b>23</b>	<b>(353,218)</b>	<b>-</b>
<b>Financing</b>			
Increase in borrowings	<b>24</b>	<b>1,315,921</b>	<b>950,917</b>
Net cash inflow from financing		<b>1,315,921</b>	<b>950,917</b>
<b>Net increase (decrease) in cash</b>	<b>23</b>	<b>4,538</b>	<b>(1,392)</b>
<b>Reconciliation to net debt</b>			
		<b>2003 £000</b>	<b>2002 £000</b>
Net debt at 1 January 2003	<b>23</b>	<b>(1,392,006)</b>	<b>(419,062)</b>
Increase (decrease) in net cash	<b>23</b>	<b>4,538</b>	<b>(1,392)</b>
Movement in liquid resources	<b>23</b>	<b>353,218</b>	<b>-</b>
Other non-cash items	<b>23</b>	<b>(50,239)</b>	<b>(20,635)</b>
Movement in borrowings	<b>23</b>	<b>(1,315,921)</b>	<b>(950,917)</b>
Exchange adjustments	<b>23</b>	<b>(10,134)</b>	<b>-</b>
Net debt at 31 December 2003	<b>23</b>	<b>(2,410,544)</b>	<b>(1,392,006)</b>

The notes on pages 12 to 28 form an integral part of these financial statements.

# Hutchison 3G UK Holdings Limited

## Notes to the accounts for the year ended 31 December 2003

### Accounting Policies

#### (a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable UK accounting standards. A summary of the significant accounting policies, which have been applied consistently, is set out below.

The Company has adopted in these accounts Application Note G, Revenue Recognition, issued in November 2003 by the UK Accounting Standards Board.

#### *Use of estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect; reported amounts of assets and liabilities, disclosure and valuation of contingent assets and liabilities and the reported amounts of income and expenditure. Actual results may differ from estimates included in the financial statements. Estimates are used when accounting for certain items such as provision for bad and doubtful debtors, depreciation, amortisation and impairment of tangible and intangible fixed assets, and valuation of inventory.

#### *Basis for consolidation*

The consolidated financial statements for the year ended 31 December 2003 consolidate the accounts of Hutchison 3G UK Holdings Limited ("the Company") and its subsidiary undertaking, Hutchison 3G UK Limited, together named ("the Group").

#### (b) Turnover

Turnover represents amounts earned for services provided to customers, net of value added tax. Turnover from third generation video mobile multi-media and communication services comprises amounts charged to customers in respect of monthly access charges, airtime usage, messaging, the provision of other mobile telecommunication services, including data services and information provision, and revenues from the sale of handsets.

Access charges and airtime used by contract customers are invoiced and recorded as part of a periodic billing cycle and recognised as turnover over the related access period. Unbilled turnover resulting from services already provided from the billing cycle date to the end of each period is accrued, and unearned monthly access charges relating to periods after each accounting period are deferred.

Revenues from sales of telecommunications equipment, net of rebates and discounts, are recognised upon activation of the customer.

The total consideration on arrangements with multiple revenue-generating activities is allocated to each separate component (mobile handset and the phone service) based on their relative fair values. The revenue from the sale of mobile handset is recognised upon activation of the service. The revenue from the sales of the phone services is recognised over the period of the contract.

Revenue from data services and information provision is recognised when the Group has performed the related service and depending on the nature of the service is recognised either at the gross amount billed to the customer or the amount receivable by the Group as commission for facilitating the service.

# Hutchison 3G UK Holdings Limited

## Notes to the accounts for the year ended 31 December 2003

### Accounting Policies (continued)

#### (c) Research and development

Expenditure on research and development is charged to the profit and loss account in the year in which it is incurred with the exception of expenditure on the development of products and services where the outcome of those projects are assessed as being reasonably certain as regards commercial viability and technical feasibility. As at 31 December 2003, no development expenditure has been capitalised.

#### (d) Customer acquisition costs

Customer acquisition costs, which include the commission costs associated with acquiring new subscribers and other incremental costs of customer acquisition, are charged to the profit and loss account as incurred. Customer acquisition costs are included in "Cost of sales".

#### (e) Pension costs

The Group contributes to a defined contribution personal pension plan in respect of its employees. Pension costs are charged to the profit and loss account in the year to which the contributions relate.

#### (f) Foreign currency transactions

Transactions denominated in foreign currencies are translated at the rate prevailing at the time of the transaction. Monetary assets or liabilities denominated in foreign currencies, which are held at the end of the year, are translated at the year-end rate of exchange. Exchange differences on monetary items are taken to the profit and loss account.

#### (g) UMTS and other licences

The Universal Mobile Telecommunication System ("UMTS") and other licences are stated at cost and amortised from the later of the start of the licence period and the date when the licence is available for use, to the end of the licence period on a straight-line basis. Licence amortisation is included in "Administrative expenses".

In accordance with FRS 10 and FRS 11, regular reviews are conducted on the licences' carrying values and where impairment is judged to have occurred a provision is made for diminution in value and charged to the profit and loss account in that period.

#### (h) Fixed assets and depreciation

Tangible fixed assets are stated at cost of acquisition or at construction cost, less accumulated depreciation. The cost of fixed assets includes only those costs directly attributable to bringing the asset into working condition for its intended use, including associated borrowing costs. Assets held under leases or other arrangements, which confer rights and obligations similar to those attaching to owned assets, are capitalised as tangible fixed assets.

Tangible fixed assets are depreciated on a straight-line basis over their estimated useful lives from the time they are brought into use at the following rates:

Leasehold improvements	over the lease term or the useful life if shorter
Plant and equipment	10% - 33.3%
Network infrastructure	5 - 10%

# Hutchison 3G UK Holdings Limited

## Notes to the accounts for the year ended 31 December 2003

### Accounting Policies (continued)

#### (h) Fixed assets and depreciation (continued)

Payments on account and assets in the course of construction are not depreciated.

In accordance with FRS 11 tangible fixed assets are tested for impairment if and when an event that might adversely affect their values has occurred. Where impairment is judged to have occurred a provision is made for diminution in value, and charged to the profit and loss account in that period.

#### (i) Leased assets

Where the Group has substantially all the risks and rewards of ownership of an asset subject to lease, that lease is treated as a finance lease with the equivalent cost recorded as both a fixed asset and a liability. Depreciation is provided in line with the Group accounting policy for the underlying assets. Finance charges, included in interest, are allocated over each lease to produce a constant rate of charge on the outstanding balance.

All other leases are accounted for as operating leases and the rental costs are charged to the profit and loss account on a straight-line basis over the term of the lease.

#### j) Deferred taxation

Deferred tax is provided in full on all timing differences, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### k) Finance costs

Costs incurred in raising debt finance are deducted from the amount raised and amortised over the life of the debt facility to produce a constant rate of charge.

#### Stock

Stock is valued at lower of cost and net realisable value. Cost includes expenditure that has been incurred in the normal course of business in bringing the product or service to its present location and condition.

#### m) Debtors

Debtors are stated at the invoiced amount less provisions for accounts that are estimated by management to be doubtful. Provisions are maintained in respect of bad and doubtful debts for estimated losses resulting from the inability of customers to make required payments. Estimates are based on the ageing of the debt balances and historical experience.

# Hutchison 3G UK Holdings Limited

## Notes to the accounts for the year ended 31 December 2003

### Accounting Policies (continued)

#### (n) Liquid resources

Liquid resources include surplus cash which is placed on short-term deposit which is disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. At 31 December 2003, all of the Group's liquid resources comprise short-term money market deposits.

### Segmental reporting

The Group's activities consist solely of the provision of third generation video mobile multi-media and communication services in the United Kingdom.

The Group's turnover comprises:

	2003 £000	2002 £000
Services	41,797	-
Equipment	45,528	-
Other	4,695	-
	<hr/> 92,020	<hr/> -

### Administrative expenses (including amounts capitalised)

	2003 £000	2002 £000
Administrative expenses has been stated after charging:		
Staff costs (note 5)	105,879	109,031
Amortisation (note 10)	200,968	-
Depreciation (note 11)	104,628	16,355
Operating lease expenditure – plant & machinery	4,458	2,608
Operating lease expenditure – other	96,102	34,838
<i>Auditors remuneration:</i>		
Auditors' remuneration	300	210
Amounts paid to auditors in respect of non audit work	210	1,406

A proportion of these costs has been capitalised in accordance with the Group's accounting policies.

Audit fees relating to the Company were borne by its subsidiary, Hutchison 3G UK Limited.



# Hutchison 3G UK Holdings Limited

## Notes to the accounts for the year ended 31 December 2003

### Directors' emoluments

	2003 £000	2002 £000
Aggregate emoluments	1,406	996
Pension contributions	115	103
	<b>1,521</b>	<b>1,099</b>

The above emoluments, including pension contributions under a money purchase scheme, were paid to two directors. The highest paid director received emoluments of £719,000 (2002: £996,000), and pension contributions of £61,000 (2002: £103,000)

### Staff costs (including amounts capitalised)

	2003 £000	2002 £000
Wages and salaries	85,859	91,631
Social security costs	11,997	11,408
Pension costs	8,023	5,992
	<b>105,879</b>	<b>109,031</b>

A proportion of these costs has been capitalised in accordance with the Group's accounting policies.

### Employee information

The year-end number of people (including executive directors) employed permanently by the Group was:

	2003 Number	2002 Number
Operations	1,881	1,614
Administration	437	391
	<b>2,318</b>	<b>2,005</b>

The average monthly number of people employed during the year was 2,092 (2002: 1,762).

### Interest receivable and similar income

	2003 £000	2002 £000
Interest receivable from bank deposits	14,214	432

# Hutchison 3G UK Holdings Limited

## Notes to the accounts for the year ended 31 December 2003

### Interest payable and similar charges

	2003 £000	2002 £000
Interest payable on amount due to a group undertaking	57,017	8,436
Interest payable on other loans	40,090	20,455
Interest payable on bank loans and overdrafts	104,501	64,730
	<hr/> 201,608	<hr/> 93,621
Finance costs capitalised	(69,055)	(69,919)
	<hr/> 132,553	<hr/> 23,702

### Tax on loss on ordinary activities

	2003 £000	2002 £ 000
Provision for the year:		
Corporation tax charged at 30%	-	-

There is no tax charge arising in the year as no taxable profits were made.

The Group has an unrecognised deferred tax asset of approximately £360,000,000 (2002: £82,000,000) in respect of losses which will be recoverable when sufficient future taxable profits have been earned.

# Hutchison 3G UK Holdings Limited

## Notes to the accounts for the year ended 31 December 2003

### UMTS and other licences

#### Group

	UMTS licence £000	Other licences £000	Total £000
<b>Cost</b>			
At 1 January 2003	4,445,598	36,000	4,481,598
Additions	-	142	142
At 31 December 2003	4,445,598	36,142	4,481,740
<b>Amortisation</b>			
At 1 January 2003	-	-	-
Charge for the year	(177,825)	(23,143)	(200,968)
At 31 December 2003	(177,825)	(23,143)	(200,968)
<b>Net book value</b>			
At 31 December 2003	4,267,773	12,999	4,280,772
At 31 December 2002	4,445,598	36,000	4,481,598

Included in the UMTS licence is the cost of a UK UMTS licence and associated bid costs. Other licences relate to the rights to distribute content.

The UMTS licence acquired in 2000 to operate third generation mobile services in the United Kingdom provides an allocation of frequency spectrum and the right to deliver voice, data and other services to mobile users for 21 years, expiring on 31 December 2021. Amortisation of the UMTS and other licences commenced when the underlying network assets and licences became available for use.

In accordance with FRS 10 and FRS 11, the Group has reviewed the carrying value of the licence based on management's expectation of future economic, commercial and operating conditions in the United Kingdom (UK) third generation video mobile multi media and communication market. The value in use has been derived from discounted cash flow projections; such projections cover a ten year period as management of the Group consider that the growth in the business will exceed the average growth rate for the UK over ten years. After the ten year period, the projections use a long-term growth rate compatible with projections for the UK.

While the cash flow projections and the discount rate applied to the cash flows are based upon management's best estimates, these estimates are subject to uncertainty. The actual outcome may differ and management's estimates may alter to reflect changes in the economic, commercial and operating environment. The directors have concluded that no provision for impairment is required at 31 December 2003.

# Hutchison 3G UK Holdings Limited

## Notes to the accounts for the year ended 31 December 2003

### Tangible fixed assets

#### Group

	Leasehold improvements £000	Plant and equipment £000	Network infrastructure £000	Payments on account and assets in the course of construction £000	Total £000
<b>Cost</b>					
At 1 January 2003	33,472	42,484	-	1,245,237	1,321,193
Additions	1,400	5,393	-	364,444	371,237
Disposals	-	(3,606)	-	-	(3,606)
Transfers	66,809	2,666	1,331,684	(1,401,159)	-
At 31 December 2003	101,681	46,937	1,331,684	208,522	1,688,824
<b>Depreciation</b>					
At 1 January 2003	(2,320)	(20,479)	-	-	(22,799)
Charge for the year	(4,459)	(14,182)	(85,987)	-	(104,628)
Disposals	-	1,160	-	-	1,160
At 31 December 2003	(6,779)	(33,501)	(85,987)	-	(126,267)
<b>Net book value</b>					
At 31 December 2003	94,902	13,436	1,245,697	208,522	1,562,557
At 31 December 2002	31,152	22,005	-	1,245,237	1,298,394

Network infrastructure includes assets held under a capital lease with a cost on 31 December 2003 of £32,000,000 (31 December 2002: £32,000,000), net book value on 31 December 2003 of £30,720,000 (31 December 2002: £32,000,000), and depreciation charge for the year ended 31 December 2003 of £1,280,000 (year ended 31 December 2002: nil). Aggregate finance costs capitalised relating to expenditure incurred on construction and development of tangible fixed assets amounts to £150,491,000 (2002: £81,436,000).

# Hutchison 3G UK Holdings Limited

## Notes to the accounts for the year ended 31 December 2003

### Investments in subsidiary undertakings

Company	Shares 2003 £000	Loans 2003 £000	Total 2003 £000
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#### Cost

At 1 January 2003 and at 31 December 2003	-	4,445,487	4,445,487
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The Company owns 100% of the issued ordinary shares of Hutchison 3G UK Limited. The principal activity of the subsidiary is the provision of third generation video multi-media and communication services.

### Stock

	2003 £000	2002 £000
<b>Group</b>		
Finished goods	17,023	122
Payments on account	39,569	61,662
	<b>56,592</b>	<b>61,784</b>

### Debtors - due within one year

	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Trade debtors	24,502	-	-	-
Amounts owed by group undertakings	21,758	59,709	1,031,257	-
Other debtors	2,510	17,234	-	-
Prepayments and deferred expenditure	35,742	38,473	-	-
	<b>84,512</b>	<b>115,416</b>	<b>1,031,257</b>	<b>-</b>

Amounts owed by group undertakings are unsecured and receivable on normal commercial terms.

Amounts owed by group undertakings to the Company are repayable on May 2013 and carry an interest rate of LIBOR plus 1%.

# Hutchison 3G UK Holdings Limited

## Notes to the accounts for the year ended 31 December 2003

### Creditors - amounts falling due within one year

	2003 £000	2002 £000
<b>Group</b>		
Bank loans and overdraft	-	848
Trade creditors	18,058	124,690
Amounts due to group undertakings	47,521	66,040
Taxation and social security	4,828	4,034
Other creditors	727	607
Accruals	252,625	139,989
	<b>323,759</b>	<b>336,208</b>

Amounts due to group undertakings are unsecured and settled on normal commercial terms.

### Creditors – amounts falling due after more than one year

	<b>Group</b>		<b>Company</b>	
	2003 £000	2002 £000	2003 £000	2002 £000
Amount due to a group undertaking	1,025,258	162,002	1,031,257	-
Bank loans	1,111,313	895,204	-	-
Other loans	620,747	333,952	-	-
Other creditors	-	7,200	-	-
	<b>2,757,318</b>	<b>1,398,358</b>	<b>1,031,257</b>	<b>-</b>

Bank loans, other loans and amount due to a group undertaking are secured by fixed and floating charges over the assets of the Company.

During 2003, the Group reached agreement with its lenders to extend the current £3.2 billion interim finance facility for an additional year through to 30 March 2005.

See note 30 for details of changes in financing since the year-end.

# Hutchison 3G UK Holdings Limited

## Notes to the accounts for the year ended 31 December 2003

### Loans and other borrowings

Maturity of debt	2003 £000	2002 £000
<b>Amounts due to a group undertaking</b>		
In more than one year, but not more than two years	200,252	162,002
In greater than five years	825,006	-
<b>Bank and other loans</b>		
In more than one year, but not more than two years	1,525,809	1,229,156
In greater than five years	206,251	-
	<b>2,757,318</b>	<b>1,391,158</b>

The amounts due in more than one year, but not more than two years, totalling £1,726,061, have been drawn down under the Group's £3.2 billion credit facility. The amounts drawn under the facility represent loans and other borrowings repayable on 30 March 2005 and carry an interest rate at LIBOR plus 2.25%. (2002: LIBOR plus 2%).

'Amounts due to a group undertaking' in more than five years of, £825,006,000, represents a £800 million loan provided by Hutchison Europe Telecommunications S.à r.l plus accrued interest. The loan plus accrued interest is repayable in full in May 2013 and carry an interest rate of LIBOR plus 1%

'Bank and other loans' due in more than five years of, £206,251,000, represents a £200 million loan provided by NTT DoCoMo, Inc., the Company's minority shareholder plus accrued interest. The loan plus accrued interest is repayable in full in May 2013 and carry an interest rate of LIBOR plus 1%

See note 30 for details of changes in financing since the year-end.

### Provisions for liabilities and charges

The Group has an obligation under the terms of its cell site leases to restore the sites to their original state on the relocation of the cell site equipment. This requires management to make estimates about the expected cost to restore the sites and the timing of the restoration of the sites.

The directors do not believe that the present value of any obligation would be significant in the context of the Group's reported financial position and results and accordingly no provision has been recorded. This matter will be kept under regular review.

### Called up share capital

	2003 £000	2002 £000
<b>Group and Company</b>		
Authorised:		
5,000,000,000 ordinary shares of £1 each	5,000,000	5,000,000
Allotted and fully paid:		
4,445,486,753 ordinary shares of £1 each	4,445,487	4,445,487

# Hutchison 3G UK Holdings Limited

## Notes to the accounts for the year ended 31 December 2003

### Called up share capital (continued)

#### Potential issues of ordinary shares

Certain employees hold options to subscribe for shares in the Company at prices ranging from 100p to 135p under the share option scheme, which is subject to compliance with applicable legal and regulatory requirements of the Company and any of its parent companies, approved by shareholders in April 2001. The number of shares subject to options, the years in which they were granted and the prices at which they may be exercised are given below:

Year of grant	Exercise price	2003 Number	2002 Number
2001	100p	26,886,000	27,998,500
2001	135p	88,675,750	109,170,000
2002	135p	11,809,000	13,696,750
2003	135p	1,405,000	-

Options issued under the scheme will vest and be exercisable partly on the initial public offering of shares in the Company and partly at predetermined dates thereafter. The expiry date for these options is 20 April 2011.

### Profit and loss account

	2003 £000	2002 £000
<b>Group</b>		
Balance at the beginning of the year	(222,861)	(73,964)
Loss for the year	(972,496)	(148,897)
<b>Retained losses at 31 December 2003</b>	<b>(1,195,357)</b>	<b>(222,861)</b>

As permitted by section 230 of the Companies Act (1985), the Company's profit and loss account has not been included in these financial statements. The Company's result for the period was £nil (2002: £nil).

### Reconciliation of movements in equity shareholders' funds

	2003 £000	2002 £000
<b>Group</b>		
Balance at the beginning of the year	4,222,626	4,371,523
Loss for the year	(972,496)	(148,897)
<b>Equity shareholders' funds at 31 December 2003</b>	<b>3,250,130</b>	<b>4,222,626</b>

#### Company

Balance at the beginning of the year	4,445,487	4,445,487
Loss for the year	-	-
<b>Equity shareholders' funds at 31 December 2003</b>	<b>4,445,487</b>	<b>4,445,487</b>



# Hutchison 3G UK Holdings Limited

## Notes to the accounts for the year ended 31 December 2003

### Reconciliation of operating loss to net cash outflow from operating activities

	2003 £000	2002 £000
<b>Group</b>		
Operating loss	(854,157)	(125,627)
Amortisation of intangible fixed assets	200,968	-
Depreciation including loss on disposal	107,074	16,355
Decrease/(increase) in stocks	5,192	(29,220)
Decrease/(increase) in debtors	5,574	(74,426)
Increase/(decrease) in creditors	(54,478)	160,378
<b>Net cash outflow from operating activities</b>	<b>(589,827)</b>	<b>(52,540)</b>

### Analysis of movement in net debt

	At 1 January 2003 £000	Cash flow £000	Foreign Exchange Movements £000	Other non-cash charges £000	At 31 December 2003 £000
Cash at bank and in hand	(848)	4,538	-	-	3,690
Investments in liquid resources	-	353,218	(10,134)	-	343,084
Debts due after one year	(1,391,158)	(1,315,921)	-	(50,239)	(2,757,318)
Debts due within one year	-	-	-	-	-
<b>Net debt</b>	<b>(1,392,006)</b>	<b>(958,165)</b>	<b>(10,134)</b>	<b>(50,239)</b>	<b>(2,410,544)</b>

Other non-cash charges represents the amortisation of the banking facility application fees paid in 2001 and accrued interest.

Investments in liquid resources comprise short-term money market deposits with banks which mature within three months of the date of inception.

# Hutchison 3G UK Holdings Limited

## Notes to the accounts for the year ended 31 December 2003

### Movement in borrowings

	£000
<b>Group</b>	
Due within one year:	-
Due after one year:	1,315,921
	<hr/>
Increase in borrowings	1,315,921
	<hr/>
Cash inflow	1,315,921
	<hr/>

### Operating lease commitments

At 31 December 2003, the Group had lease agreements in respect of land and buildings, office equipment, and motor vehicles for which the payments extend over a number of years.

	Land & buildings 2003 £000	Other 2003 £000	Total 2003 £000	Land & buildings 2002 £000	Other 2002 £000	Total 2002 £000
<b>Annual commitments under non cancellable operating leases expiring:</b>						
Within one year	357	460	817	997	136	1,133
Within two to five years	1,013	569	1,582	616	1,716	2,332
After five years	47,365	-	47,365	34,984	-	34,984
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	48,735	1,029	49,764	36,597	1,852	38,449

### Pensions

The Group operates a defined contribution personal pension plan. The pension plan is voluntary. Group employees have the option to join the scheme on the commencement of employment.

	2003 £000	2002 £000
Pension costs	8,023	5,992

At 31 December 2003, the pension contribution payable was £767,000 (2002: £519,000).

# Hutchison 3G UK Holdings Limited

## Notes to the accounts for the year ended 31 December 2003

### Capital commitments

At 31 December 2003, the Group had contracted capital commitments of £247,600,000 (2002: £367,323,000) which relate to the development of the infrastructure and services to provide third generation mobile video multi-media and communication services in the UK.

### Related party transactions

Transactions with companies in the HWL group, all of which are under common control, are shown below.

Company	Profit & loss		
	Balances at	account	Balance sheet
	31 Dec 2002	transactions	transactions
	£000	£000	£000
Hutchison Network Services UK Limited	-	(2,123)	-
Hutchison International Limited	(3,374)	-	5
Hutchison Telecommunications International Limited	31	-	-
Hutchison Europe Telecommunications S.à r.l.	(164,956)	(37,437)	(837,054)
Hutchison 3G Austria GmbH	9	-	102
Hutchison 3G Italia S.p.A.	75	-	5,144
Hi3G Access AB	158	-	(158)
Hutchison Whampoa Europe Investments S.à r.l.	(49,242)	-	(27,347)
Hutchison 3G Australia Pty Limited	274	-	3
Hutchison Whampoa 3G IP S.à r.l.	51,896	-	(11,880)
Hutchison Whampoa (Europe) Limited	(2,287)	-	-
Hutchison Whampoa 3G Procurement S.à r.l.	(10,415)	(10,894)	-
Hutchison 3G Enterprises S.à r.l.	3,328	-	3,745
Hutchison Whampoa Three G Enterprises (Bahamas) Limited	667	-	(3,328)
Hutchison Whampoa 3G Content S.à r.l.	(358)	-	(1,384)
Hutchison 3G Ireland Limited	56	2,574	-
Hutchison CAT Wireless MultiMedia Limited	(41)	-	-
Hutchison Tele-Services (India) Pvt Limited	1,741	-	4,050
Savers Health & Beauty Limited	-	2,301	-
Superdrug Stores plc	-	(2,236)	-

Within Hutchison Europe Telecommunications S.à r.l. (formerly Hutchison 3G Europe Investments S.à r.l.) is a loan of £1,003,161,000 plus accrued interest to the Group (2002: £166,107,000) (see note 17). Included in profit and loss transactions is £37,437,000 (2002: £8,182,000) of finance costs paid and payable to Hutchison Europe Telecommunications S.à r.l.

# **Hutchison 3G UK Holdings Limited**

## **Notes to the accounts for the year ended 31 December 2003**

### **Related party transactions (continued)**

The amounts owed to Superdrug Stores plc represent payments due in respect of store space occupied by the Group. In March 2003, the Group entered into an agreement with Superdrug Stores plc for the provision of consulting services. Turnover in the amount of £3.5 million was recognised in 2003 in respect of this transaction. Amounts due to the Group were paid in full in 2003.

In December 2003, the Group entered into agreements with Superdrug Stores plc, Savers Health & Beauty Limited, Hutchison 3G Ireland Limited and Hutchison Whampoa 3G Procurement S.à r.l., for the supply of mobile handsets and accessories. All four companies are subsidiaries of HWL, (see note 29). Turnover in the amount of £13.6 million was recorded in 2003 in respect of these transactions. All amounts due in respect of these transactions were paid in full in December 2003.

The Group acquires and provides certain services and assets to/from other HWL controlled companies including Hutchison Whampoa Europe Investments S.à r.l., Hutchison Whampoa 3G IP S.à r.l. and Hutchison Whampoa 3G Procurement S.à r.l., as shown above.

Transactions undertaken during the year with NTT DoCoMo, Inc., the Company's minority shareholder, are disclosed in Note 17.

### **Ultimate parent undertaking**

The immediate parent company is Hutchison 3G UK Investments S.à r.l., a company incorporated in Luxembourg, which owns approximately 50.1% of the share capital and voting rights of the Company.

HWL, a company listed on The Stock Exchange of Hong Kong Limited and incorporated in Hong Kong, is the smallest and largest group to consolidate these accounts, and is the Company's ultimate parent undertaking and owns, through Hutchison 3G UK Investments S.à r.l. and other HWL group companies, 65% of the share capital and voting rights of this Group.

Copies of the group accounts of HWL may be obtained from the Company Secretary at 22<sup>nd</sup> Floor, Hutchison House, 10 Harcourt Road, Hong Kong.

During the year, HWL and KPN Mobile N.V. ("KPN") settled their disputes and HWL entered into an agreement providing for the purchase of KPN's 15% interest in the Company.

### **Post balance sheet events**

On 8 April 2004, the Group's £3.2 billion credit facility (see note 17) was novated to a Hutchison Whampoa Limited group company ("HWL Company"). HWL Company paid cash consideration equal to the face value of amounts drawn on the facility at 8 April 2004. The pledge on the shares of the Company was released on that date.

The Group has since reached agreement with HWL Company to extend the current £3.2 billion credit facility for an additional year through to March 2006.

## **Hutchison 3G UK Holdings Limited**

### **Notes to the accounts for the year ended 31 December 2003**

#### **Post balance sheet events (continued)**

In June 2004 HWL and NTT DoCoMo, Inc. entered into an agreement whereby HWL has a right to purchase or procure the purchase of NTT DoCoMo, Inc.'s 20% investment in the Company. This right is exercisable and the purchase will be completed subject to HWL paying all three payments due between now and 2006.

Under the agreements in the preceding paragraph, HWL purchased from DoCoMo its £200 million loan to the Group (see note 17) for an aggregate cash consideration of £200 million in June 2004. The Group is now wholly funded by HWL.