

Company Number: 2412603

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31ST DECEMBER 1996



HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

REPORT AND ACCOUNTS FOR THE YEAR ENDED  
31ST DECEMBER 1996

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# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## DIRECTORS' REPORT

The Directors present their Annual Report and the Audited Accounts for the year ended 31st December 1996.

### Principal Activities and Business Review

The Hutchison Telecommunications (UK) Limited Group ("the Group") provides a comprehensive range of wirefree personal communications services.

The Group's principal activities during 1996 were :

- The operation and continuing development of a national digital cellular personal communications network;
- Reselling of airtime on third party cellular networks;
- The operation of a national messaging network and a financial information network.

The national digital cellular personal communications network, launched under the brand name Orange in 1994, provided both data and voice services to 92% of the population on the 31 December 1996, having grown from 85% at the end of the previous year. The Orange subscriber base grew from 379,000 at 31 December 1995 to over 785,000 at 31st December 1996, which represented 11.5% of all cellular telephone subscribers in the UK, and 22.9% of all digital cellular telephone subscribers in the UK. Turnover increased from £113.3m in 1995 to £368.0m in 1996.

The airtime reselling business continued to focus on the maintenance of a quality subscriber base, and the generation of cash and profit for the Group. Turnover declined from £104.2m in 1995 to £85.3m in 1996, in line with a reduction in the subscriber base from 163,000 to 123,000 over the same period. Operating profit, however, increased from £7.3m to £11.1m.

The paging business continued to grow over the period with an increase in subscriber base from 53,000 to almost 57,000. Turnover increased from £7.7m to £8.6m, thereby maintaining a positive gross margin, and reducing the operating loss from £4.4m to £2.9m.

Further to the share reorganisation at the end of 1995, whereby Orange plc acquired the share capital of Hutchison Telecommunications (UK) Limited by means of a five for one share exchange, the former Company successfully floated on the London Stock Exchange and on the U.S. NASDAQ Stock Market on the 2nd April by means of a global offering. Full details of the global offering are disclosed in the report and accounts of Orange plc.

### Future Developments

The Group continues to invest in the development of digital mobile communications technology.

### Dividends and Transfer to Reserves

The Group made a net loss for the year of £217.4m (1995 - £127.7m) in the year ended 31st December 1996.

The Directors have not recommended the payment of a dividend in respect of the ordinary shares for the financial year ended 31st December 1996 (1995: nil).

The loss for the year of £217.4m (1995 - £127.7m) has therefore been transferred to reserves.

### Political and Charitable Donations

The Group made no political or charitable donations during the year.

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## DIRECTORS' REPORT (CONTINUED)

### Research and Development

The research and development program is designed to monitor, stimulate and evaluate key emerging technologies with a view to applying them commercially in the Orange network and products. It is committed to ensuring that such enhancements enable the Group to remain competitive by creating new market opportunities and improving operational efficiency.

Research and development activity is in three main areas: European Commission "Advanced Communications Technologies and Services" (ACTS) projects, directly funding University programmes and participation in standardisation activities.

The Group is participating in five ACTS projects, encompassing all aspects of the network including advanced terminals, network techniques and services. The Group is involved in a project with the University of Strathclyde, which has already demonstrated good quality mobile to mobile video telephony. This is now being developed further for commercial exploitation.

### Creditor Payment Policy

The Group's policy concerning the payment of its trade creditors complies with Confederation of British Industry guidelines and is, unless otherwise agreed at the time of contract, the payment of invoices 30 days after the month of invoice.

For all trade creditors, it is the Group's policy to :

- agree the terms of payment at the start of business with that supplier,
- ensure that suppliers are aware of the terms of payment,
- pay in accordance with its contractual and other legal obligations.

### Directors

The Directors who served during the year were:

The Rt Honourable Lord Derwent LVO DL

Hans R Snook

Graham E Howe

Dr Colin P Tucker

Canning Fok

William Shurniak

George Magnus

Khoo Chek Ngee

Richard D Lapthorne

Andrew Wrathall

George Rose

Chairman (resigned 18 December 1996)

(resigned 18 December 1996)

(resigned 18 December 1996)

(resigned 18 December 1996)

(resigned 18 December 1996)

(resigned 24 January 1996)

(resigned 18 December 1996)

None of the Directors have any interest in the issued share capital of the Company. Interests of the Directors, who are Directors in the ultimate holding company, Orange plc, are shown in the Remuneration Committee report contained in the Annual Report of that company.

### Equal Opportunities & Disabled Employees

The Group does not discriminate between employees or potential employees on grounds of race, colour, ethnic or national origin, sex, marital status or religious beliefs.

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## DIRECTORS' REPORT (CONTINUED)

### Equal Opportunities & Disabled Employees (continued)

Where employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions, and to provide training and career development and promotion wherever appropriate.

### Employee Involvement

During the year, the Group's policy of providing employees with information about the Group has been continued. A staff newsletter has been established, and regular bulletins are issued about developments, together with internal copies of press releases.

### Auditors

The Company's auditors are Price Waterhouse.

BY ORDER OF THE BOARD



Mark Paterson  
Company Secretary

Date: 7 April 1997

Registered Office:  
St James Court,  
Great Park Road  
Almondsbury Park,  
Bradley Stoke  
Bristol BS12 4QJ

## HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss and cash flows of the Group for that period. In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## AUDITORS' REPORT TO THE SHAREHOLDERS FOR THE YEAR ENDED 31ST DECEMBER 1996

We have audited the financial statements on pages 6 to 31, which have been prepared under the historical cost convention and the accounting policies set out on pages 11 to 13.

### Respective responsibilities of Directors and Auditors

As described on page 4, the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of 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 the affairs of the Company and Group as at 31st December 1996 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.

  
Price Waterhouse  
Chartered Accountants  
and Registered Auditors  
London

Date: 7 April 1997

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 1996

	<u>Notes</u>	<u>1996</u> £'000	<u>1995</u> £'000
TURNOVER	1,2	473,059	228,716
Cost of sales		<u>(479,039)</u>	<u>(240,999)</u>
GROSS LOSS		(5,980)	(12,283)
Distribution costs		(83,636)	(57,318)
Administrative expenses		<u>(88,446)</u>	<u>(48,153)</u>
OPERATING LOSS	3	(178,062)	(117,754)
Interest receivable and similar income	4	1,167	3,777
Exceptional gain on defeasance of finance leases	5	<u>8,507</u>	<u>64,067</u>
		9,674	67,844
Interest payable and similar charges	6	<u>(48,990)</u>	<u>(77,742)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(217,378)	(127,652)
Tax on loss on ordinary activities	9	<u>0</u>	<u>0</u>
LOSS FOR THE YEAR	20	<u><u>(217,378)</u></u>	<u><u>(127,652)</u></u>

No acquisitions or discontinued operations have occurred.

The notes on pages 11 to 31 form an integral part of these accounts.

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED  
31ST DECEMBER 1996

	<u>1996</u>	<u>1995</u>
	<u>£'000</u>	<u>£'000</u>
Loss for the financial year	(217,378)	(127,652)
Prior year adjustment (Note 22)	0	(22,080)
	<hr/>	<hr/>
Total recognised losses	<u>(217,378)</u>	<u>(149,732)</u>

The Notes on pages 11 to 31 form an integral part of these accounts.

The Company has no recognised gains or losses other than its profit of £26,262,000 (1995 - £24,860,000 loss) (Note 21).

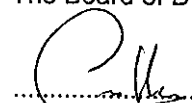
# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## CONSOLIDATED BALANCE SHEET AT 31ST DECEMBER 1996

	Notes	1996		1995	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Intangible assets	10	104,817		91,981	
Tangible assets	11	639,662		486,999	
Investments	24	1,025		0	
			745,504		578,980
CURRENT ASSETS					
Stocks	13	14,607		32,260	
Debtors	14	83,576		40,442	
Investments	28	0		82,756	
Cash at bank and in hand	28	2,083		834	
		100,266		156,292	
CREDITORS: Amounts falling due within one year	15	(357,088)		(229,473)	
NET CURRENT LIABILITIES			(256,822)		(73,181)
TOTAL ASSETS LESS CURRENT LIABILITIES			488,682		505,799
CREDITORS: Amounts falling due in more than one year	16		(1,245,967)		(1,040,650)
PROVISIONS FOR LIABILITIES AND CHARGES	17		(22,701)		(27,757)
NET LIABILITIES			(779,986)		(562,608)
CAPITAL AND RESERVES					
Called up share capital	19		30,657		30,657
Profit and loss account	20		(810,643)		(593,265)
DEFICIT OF SHAREHOLDERS' FUNDS			(779,986)		(562,608)

The notes on pages 11 to 31 form an integral part of these accounts.

The Board of Directors approved the accounts set out on pages 6 to 31 on the 7 April 1997

  
 .....  
 Graham E Howe  
 Group Finance Director

7 April 1997

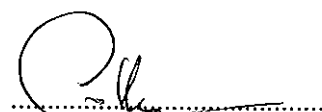
# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## COMPANY BALANCE SHEET AT 31ST DECEMBER 1996

	Notes	1996	1995
		£'000	£'000
<b>FIXED ASSETS</b>			
Tangible assets	12	2,038	2,848
Investments	25	<u>112,962</u>	<u>112,962</u>
		115,000	115,810
<b>CURRENT ASSETS</b>			
Debtors:			
Amounts falling due within one year	14	256	1,884
Amounts falling due in more than one year	14	1,251,570	799,397
Investments		0	82,756
Cash at bank and in hand		<u>1,785</u>	<u>90</u>
		1,253,611	884,127
<b>CREDITORS: Amounts falling due within one year</b>	15	<u>(149,415)</u>	<u>(9,760)</u>
<b>NET CURRENT ASSETS</b>		<u>1,104,196</u>	<u>874,367</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,219,196	990,177
<b>CREDITORS: Amounts falling due in more than one year</b>	16	(1,245,967)	(1,040,401)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	18	<u>(18,347)</u>	<u>(21,156)</u>
<b>NET LIABILITIES</b>		<u>(45,118)</u>	<u>(71,380)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	19	30,657	30,657
Capital reserve	21	3,345	3,345
Profit and loss account	21	<u>(79,120)</u>	<u>(105,382)</u>
<b>DEFICIT OF SHAREHOLDERS' FUNDS</b>		<u>(45,118)</u>	<u>(71,380)</u>

The notes on pages 11 to 31 form an integral part of these accounts.

The Board of Directors approved the accounts set out on pages 6 to 31 on the 7 April 1997



Graham E Howe  
Group Finance Director

7 April 1997

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 1996

	Notes	<u>1996</u> £'000	<u>1995</u> £'000
Cash flow from operating activities	26	47,843	(36,193)
Return on investments and servicing of finance	27	(29,245)	(105,807)
Taxation		0	0
Capital expenditure and financial investment	27	(364,268)	(249,775)
Management of liquid resources	27	82,756	(7,756)
Financing	27	<u>263,362</u>	<u>378,715</u>
Increase / (decrease) in cash	28	<u><u>448</u></u>	<u><u>(20,816)</u></u>

Reconciliation of net cash flow to movement in net debt	<u>1996</u> £'000	<u>1995</u> £'000
Increase / (Decrease) in cash in the year	448	(20,816)
Cash inflow from increase in debt and lease financing	(324,201)	(245,302)
Cash (inflow) / outflow from (decrease) / increase in liquid resources	(82,756)	7,756
Change in net debt resulting from cash flows	<u>(406,509)</u>	<u>(258,362)</u>
Other non cash charges	<u>(2,135)</u>	<u>0</u>
Movement in net debt in the year	(408,644)	(258,362)
Net debt at 1st January	<u>(966,425)</u>	<u>(708,063)</u>
Net debt at 31st December	<u><u>(1,375,069)</u></u>	<u><u>(966,425)</u></u>

The notes on pages 11 to 31 form an integral part of these accounts.

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 1. Accounting Policies

#### (a) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Management believes that cash from operations together with borrowings under the Bank Facility Agreement will be sufficient to cover the Group's projected liabilities as they fall due. Accordingly, these financial statements have been prepared on a going concern basis.

#### (b) Principles of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings. Intercompany transactions and balances have been eliminated. The consolidated financial statements include the results of subsidiary undertakings acquired from the relevant date of acquisition.

#### (c) Turnover

Turnover includes the amounts invoiced for airtime and related services supplied to subscribers, and handsets and related accessories supplied to both subscribers and intermediaries within the period, together with airtime income earned but not invoiced. Turnover excludes airtime income billed in advance and value added tax.

#### (d) Cost of Sales

Cost of sales includes amortisation of capitalised network and subscriber acquisition costs (see note 1(h) below), third party network interconnection costs, costs paid to third party network operators by service providers and costs of day to day network operations and maintenance.

#### (e) Stocks

Stocks comprise handsets and other goods for resale and are valued at the lower of cost and net realisable value, (which reflects the value to the business of the handset in the hands of the subscriber), cost being determined on a first in, first out basis.

#### (f) Tangible Fixed Assets

Tangible fixed assets are stated at historical cost less depreciation. No depreciation is provided on land. Leasehold improvements are amortised over the term of the related lease.

The cost of the Orange network comprises network assets purchased at cost, together with direct construction costs of the network (see note 1(g) below).

Depreciation of the Orange network commenced from the date of launch of the network in April 1994. Depreciation rates have been established to amortise the network over ten years. For assets placed in service prior to 1995, the depreciation rates applied in the first five years are based upon the level of subscriber usage, while a constant rate is applied in the second five years. Assets placed in service after 31st December 1994 are depreciated at a constant rate from the date they become operational.

Costs of maintaining the network are charged to the profit and loss account as incurred.

In the case of other tangible assets depreciation is calculated using the straight line method to write off the cost of each asset over its estimated useful life according to the following rates:

Freehold land.....	Nil
Freehold buildings .....	2%
Leasehold land and buildings .....	Term of Lease
Computer equipment .....	30%
Motor vehicles .....	25%
Fixtures, fittings and equipment .....	15 - 20%
Other networks .....	10%

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 1. Accounting Policies (Continued)

#### (g) Capitalisation of Interest

Interest costs arising from indebtedness incurred to finance construction and development of network assets up to launch in April 1994 were capitalised as part of the construction of the network.

Following launch, interest has been charged to the profit and loss account as incurred.

#### (h) Intangible Fixed Assets

Subscriber acquisition costs :

The difference between the cost of Orange handsets to the Group and the lower amount recoverable from sales to intermediaries, if any, together with any additional commission payments, are recorded as subscriber acquisition costs. These costs are capitalised and amortised over twelve months, consistent with the duration of the initial subscriber contract. Costs of acquiring subscribers who return handsets within the 14 days refund period are written off when the handsets are returned.

Costs of obtaining new subscribers for the Group's service providers to third party networks are charged against the profit and loss account as incurred as the Group does not control the third party mobile network by which the service is accessed by the subscriber.

Pre-launch network development costs:

Costs incurred during the construction phase of the mobile digital cellular network prior to launch date are accounted for as follows:

Information technology services costs incurred prior to launch were capitalised and are amortised over five years using the straight line method commencing at launch.

Other network related costs incurred prior to launch in April 1994 were capitalised and are amortised over ten years commencing at launch at the rates specified in note 1 (f) above. Post launch network operating costs are expensed as incurred.

Operating and overhead costs incurred during the construction phase of other Group networks prior to launch date were capitalised and are amortised over ten years using the straight line method.

#### (i) Research and Development Costs

Research and development costs, excluding pre-launch development costs (note 1 (h) above), are charged to the profit and loss account as incurred.

#### (j) Advertising Costs

All advertising costs are charged to the profit and loss account as incurred.

#### (k) Deferred Taxation

Deferred taxation is determined using the liability method in respect of the taxation effects of all timing differences to the extent that it is probable that liabilities will crystallise or assets will be realised in the foreseeable future.

#### (l) 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 of cost recorded as both a fixed asset and a liability. Depreciation is provided in line with the Group accounting policy for the underlying asset. Finance charges in respect of the underlying liability are included in interest.

Other leases are classified as operating leases and lease payments are charged to the profit and loss account in the periods during which they are paid.

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 1. Accounting Policies (Continued)

#### (m) Cost of Funds

Interest expense reflects the underlying cost of borrowing. Net payments and receipts made under interest rate swap contracts are accrued over the period to which they relate and applied against or added to interest expense.

The discount in relation to the bonds issued by the Company has accreted at a rate that provides a constant periodic rate of return to the lender over the life of the bonds.

Costs incurred in relation to borrowings are deferred upon entering into the borrowing facility and charged against the profit and loss account over the term of the facility at a constant rate on the carrying amount.

#### (n) Pension and other Post Retirement Obligations

The Group operates a defined contribution plan for its eligible employees. The Group's contributions to the pension plan are charged to the profit and loss account in the year to which they relate.

The Group has no other post retirement or post employment benefit costs.

#### (o) Long Term Incentive Plan

Cost of shares acquired under the long term incentive plan are charged against the profit and loss account based on an assessment of the probability of the performance conditions and the plan being met. The charge is allocated on a straight line basis over the performance period of the plan.

#### (p) Foreign Currencies

Assets and liabilities in foreign currencies are translated into sterling at year end exchange rates. These and other exchange gains or losses are dealt with through the profit and loss account.

#### (q) Goodwill

Goodwill arising on the acquisition of subsidiary undertakings, being the difference between cost and fair value of the Group's share of net tangible assets acquired, is charged against reserves in the year of acquisition. In the event of a disposal of any previously acquired businesses, any associated goodwill that had been charged directly against reserves is included in determining the profit or loss on such disposal. Where management consider that there has been a permanent diminution in the value of goodwill previously charged against reserves, this element of the goodwill is transferred from reserves and charged to the profit and loss account.

#### (r) In accordance with the recommendations set out in "Financial Reporting Standard 1 - 'Cash Flow Statements (Revised 1996)"; the Group has adopted the standard earlier than the mandatory date of accounting periods ending on or after 23rd March 1997.

#### (s) Liquid Resources

Liquid resources comprise readily disposable current asset investments.

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 2. Segmental Analysis

For the period under review, all revenues were earned in the United Kingdom and all identifiable assets were located in the United Kingdom.

#### a) Turnover

	<u>1996</u>	<u>1995</u>
	£'000	£'000
Orange	368,037	113,311
Cellular Services	85,304	104,181
Paging	8,635	7,729
Other	11,083	3,495
	<u>473,059</u>	<u>228,716</u>

#### b) Operating (Loss) / Profit

	<u>1996</u>	<u>1995</u>
	£'000	£'000
Orange	(188,169)	(125,793)
Cellular Services	11,100	7,290
Paging	(2,922)	(4,381)
Other	1,929	5,130
	<u>(178,062)</u>	<u>(117,754)</u>

#### c) Net Liabilities

	<u>1996</u>	<u>1995</u>
	£'000	£'000
Orange	(435,295)	(180,644)
Cellular Services	(34,291)	(45,394)
Paging	(41,108)	(38,186)
Other	(269,292)	(298,384)
	<u>(779,986)</u>	<u>(562,608)</u>

The geographical destination of turnover is not materially different from the above analysis by origin.

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 2. Segmental Analysis (continued)

The increase in turnover in 1996 included the effect of changing from net to gross pricing of equipment sales. Until the end of 1995, Orange's practice was to recognise the handset subsidy in the sales price to its distribution channels. For most channels Orange now passes on the full cost of the handset, and includes the subsidy element in the commission which is paid upon connection. The increase in equipment revenue resulting from this change is offset by a corresponding increase in commission costs (included in cost of sales).

Other refers to net liabilities which include material balances and other assets and liabilities relating to non-divisional operations which are controlled centrally and cannot be allocated meaningfully to individual divisions.

### 3. Operating Loss

	1996	1995
	£'000	£'000
Loss before interest is stated after charging:		
Research and development costs	687	675
Depreciation of tangible fixed assets	64,018	34,852
Amortisation and write off of intangible fixed assets	124,969	64,522
Operating lease rentals - land and buildings	4,331	3,853
- other	25,671	10,858
Exchange loss	0	4
Staff costs (see note 7)	64,362	44,472
Directors' emoluments (see note 8)	1,176	1,191
	<u>1,176</u>	<u>1,191</u>

### 4. Interest Receivable and Similar Income

	1996	1995
	£'000	£'000
Bank interest receivable	<u>1,167</u>	<u>3,777</u>

### 5. Exceptional Gain on Defeasance of Finance Leases

	1996	1995
	£'000	£'000
Gain on defeasance of finance leases	<u>8,507</u>	<u>64,067</u>

The exceptional profit results from the in-substance early extinguishment (defeasance) of obligations under finance leases. The finance lease obligations were undertaken in connection with a sale and leaseback transaction, whereby a significant proportion of the Group's digital network equipment and certain related licensed software were sold in December 1995. This arrangement was concluded in 1996 with two further drawdowns.

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 5. Exceptional Gain on Defeasance of Finance Leases (continued)

The Group has deposited amounts equal to the present value of its rental obligations with UK financial institutions ("the deposit banks") to secure letters of credit issued by these institutions to the Lessor in order to secure the Group's rental obligations. These funds, which totalled £376.4 million at 31st December 1996 (1995 - £331.7 million), together with the interest earned thereon, will be used to settle the Group's rental obligations under the leases. The gain of £8.5 million (1995 - £64.1 million) represents the difference between the proceeds received and the funds deposited with the deposit banks.

If the finance leases terminate due to the insolvency of either of the deposit banks, the obligations of the Group to pay future rentals are replaced by an obligation to pay a termination sum under each finance lease. Under the contractual arrangements with the Lessor, the Lessor has agreed to bear the risk of non payment of that portion of the termination sum that was to be settled through a demand under the letters of credit issued by the defaulting deposit bank.

In addition, if the Group pays the remainder of the termination sum, Hutchison Whampoa Limited and British Aerospace plc, being shareholders of the parent undertaking, have agreed to indemnify the Group against the making of this payment in these circumstances. Finally, if the Group is unable to pay the remainder of the termination sum, and Hutchison Whampoa Limited and British Aerospace plc, pursuant to their guarantees, pay these amounts to the Lessor, then Hutchison Whampoa Limited and British Aerospace plc have agreed to waive their rights to be counter-indemnified by the Group in such circumstances.

The rentals payable under the leases will vary if interest rates or tax rates change. The Group's immediate parent company, Orange plc, has indemnified the Group for an amount which, based on their assessment of likely outcomes, the Directors believe to be sufficient to cover possible future costs arising from such variations in arriving at the profit recognised.

### 6. Interest Payable and Similar Charges

	1996	1995
	£'000	£'000
Bank loans and overdrafts	48,575	453
Bonds due to wholly owned subsidiaries of Hutchison Whampoa	0	52,740
Bonds due to British Aerospace	0	24,342
Interest paid to parent undertaking	120	0
Other loans	295	204
Finance leases	0	3
	<u>48,990</u>	<u>77,742</u>

### 7. Staff Numbers and Costs

The average number of persons employed by the Group (including Directors) during the period was as follows :

	1996	1995
	Number	Number
Telecommunications	<u>3,165</u>	<u>2,041</u>

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 7. Staff Numbers and Costs (continued)

The aggregate payroll costs of these persons were as follows:

	1996	1995
	£'000	£'000
Wages and salaries	56,686	39,362
Social security costs	5,598	3,685
Other pension costs	2,078	1,425
	<u>64,362</u>	<u>44,472</u>

In April 1996, Orange plc established an employee benefit trust with the power to acquire shares in the open market. The trustee is an offshore subsidiary of Orange plc and is managed under contract by an independent management company. Shares purchased by the trust are held to meet obligations under the Group's share schemes.

During the period the trust made an award of shares to each employee of the Group under a share bonus plan. In total 155,750 shares were awarded at a cost of £2.05 per share. The total cost of these awards of £319,000 (1995 - £nil) has been charged to the profit and loss account.

Also during the period the trust purchased shares to be held to meet future obligations under Orange plc's long term incentive plan (LTIP), details of which are set out in the Report of the Remuneration Committee in the financial statements of Orange plc. The total number of shares held for this purpose at 31st December 1996 was 500,224 (1995 - nil) which had a market value at that date of £940,421 (1995 - £nil).

The charge to the profit and loss account with respect to the LTIP during the period was £342,000 (1995 - £nil).

### 8. Directors' Emoluments

The Directors did not receive any emoluments from the Company in respect of their services to the Group. The Directors received emoluments from a subsidiary undertaking in respect of their services to the Group. The aggregate allocated emoluments for the year ended 31st December 1996 amounted to £1,176,000 (1995 - £1,191,000).

The allocated emoluments of the highest paid Director were £606,000 (1995 - £737,000).

The Chairman received no remuneration (1995 - nil).

	1996	1995
Directors' emoluments fell within the following range:	Number	Number
£0 - £5,000	8	7
£150,001 - £155,000	0	1
£190,001 - £195,000	1	0
£280,001 - £285,000	0	1
£355,001 - £360,000	1	0
£605,001 - £610,000	1	0
£735,001 - £740,000	<u>0</u>	<u>1</u>

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 9. Tax on loss on ordinary activities

Corporation tax charge for the year is £nil (1995 - £nil) as the companies in the Group either incurred losses in the year or those that made profits were able to utilise tax losses brought forward or group relief.

### 10. Intangible Fixed Assets - Group

	Subscriber Acquisition Costs	Network Development Costs	Total
	£'000	£'000	£'000
<b>Cost</b>			
1st January 1996	131,013	44,468	175,481
Expenditure during year	137,805	0	137,805
	<u>268,818</u>	<u>44,468</u>	<u>313,286</u>
<b>Amortisation</b>			
1st January 1996	71,143	12,357	83,500
Charged in year	121,287	3,682	124,969
	<u>192,430</u>	<u>16,039</u>	<u>208,469</u>
<b>Net book amount</b>			
31st December 1996	<u>76,388</u>	<u>28,429</u>	<u>104,817</u>
31st December 1995	<u>59,870</u>	<u>32,111</u>	<u>91,981</u>

### 11. Tangible Fixed Assets - Group

	Freehold Land and Buildings	Short Leasehold Improvements	Networks	Fixtures, Fittings and Equipment	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
1st January 1996	8,128	7,338	525,712	51,861	593,039
Additions	1,800	2,888	188,376	24,860	217,924
Disposals	0	(429)	(1,219)	(1,159)	(2,807)
	<u>9,928</u>	<u>9,797</u>	<u>712,869</u>	<u>75,562</u>	<u>808,156</u>
31st December 1996	<u>9,928</u>	<u>9,797</u>	<u>712,869</u>	<u>75,562</u>	<u>808,156</u>

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 11. Tangible Fixed Assets - Group (continued)

#### Depreciation

1st January 1996	1,491	2,930	70,624	30,995	106,040
Charged in year	183	613	52,859	10,363	64,018
Disposals	0	(321)	(301)	(942)	(1,564)

31st December 1996	<u>1,674</u>	<u>3,222</u>	<u>123,182</u>	<u>40,416</u>	<u>168,494</u>
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#### Net book amount

31st December 1996	<u>8,254</u>	<u>6,575</u>	<u>589,687</u>	<u>35,146</u>	<u>639,662</u>
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31st December 1995	<u>6,637</u>	<u>4,408</u>	<u>455,088</u>	<u>20,866</u>	<u>486,999</u>
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Network includes assets held under a finance lease with a cost of £449,458,589 at 31st December 1996 (1995 - £396,265,000) (see note 5).

The accumulated depreciation on these assets was £54,850,000 (1995 - £17,601,000) at 31st December 1996.

Network assets include capitalised interest of £16,892,000 (1995 - £16,892,000) with a carrying value of £14,790,978 (1995 - £16,117,000).

Fixtures, fittings and equipment include assets held under finance leases of £2,685,000 (1995 - £2,685,000) at 31st December 1996. Such assets had accumulated depreciation of £2,685,000 (1995 - £2,683,000) at 31st December 1996. The depreciation on these assets in 1996 was £2,000 (1995 - £226,000).

### 12. Tangible Fixed Assets - Company

	Short Leasehold Improvements	Fixtures, Fittings and Equipment	Total
	£'000	£'000	£'000
<b>Cost</b>			
1st January 1996 and 31st December 1996	<u>4,317</u>	<u>2,086</u>	<u>6,403</u>
<b>Depreciation</b>			
1st January 1996	2,167	1,388	3,555
Charged in year	<u>458</u>	<u>352</u>	<u>810</u>
31st December 1996	<u>2,625</u>	<u>1,740</u>	<u>4,365</u>
<b>Net book amount</b>			
31st December 1996	<u>1,692</u>	<u>346</u>	<u>2,038</u>
31st December 1995	<u>2,150</u>	<u>698</u>	<u>2,848</u>

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 13. Stocks - Group

	1996	1995
	£'000	£'000
Finished goods for resale	14,607	32,260
Stocks principally comprise handsets for use with the Orange network.		

### 14. Debtors

	1996		1995	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Trade debtors	38,637	0	19,362	0
Amounts due from Group undertakings	1,966	1,251,570	1,474	799,760
Other debtors	21,379	0	8,095	1,179
Prepayments and accrued income	21,594	256	11,511	342
	<u>83,576</u>	<u>1,251,826</u>	<u>40,442</u>	<u>801,281</u>

Of the amount due from Group undertakings, an amount of £1,251,570,000 (1995 - £799,397,000) is due to the Company in more than one year.

Group other debtors include £2,322,000 (1995 - £746,000) which is due after more than one year.

### 15. Creditors: Amounts Falling Due Within One Year

	1996		1995	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Bank loans and overdrafts	125,384	120,402	9,583	219
Less: Facility fees	(2,180)	(2,180)	0	0
Trade creditors	46,832	0	39,846	214
Amounts owed to parent undertakings	7,970	7,970	0	0
Amounts owed to fellow subsidiary undertakings	50	1,382	5,297	6,415
Other creditors	13,868	917	50,844	537
Taxation and social security	4,896	944	62,877	293
Accruals and deferred income	160,257	19,980	61,005	2,082
Finance lease commitments	11	0	21	0
	<u>357,088</u>	<u>149,415</u>	<u>229,473</u>	<u>9,760</u>

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 15. Creditors: Amounts Falling Due Within One Year (continued)

Bank loans and overdrafts include £115,000 (1995 - nil) under the Bank Facility Agreement (Note 16).

Taxation and social security in 1995 includes VAT payable on the network sale and leaseback transaction.

### 16. Creditors: Amounts Falling Due In More Than One Year

	1996		1995	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans	600,000	600,000	400,000	400,000
Less: Facility fees	(12,722)	(12,722)	(14,875)	(14,875)
Loan owed to Parent undertaking	658,689	658,689	655,276	655,276
Accruals and deferred income	0	0	239	0
Finance lease commitments:				
Payable between one and two years	0	0	10	0
	<u>1,245,967</u>	<u>1,245,967</u>	<u>1,040,650</u>	<u>1,040,401</u>

The loan to the parent undertaking is interest free and does not have a repayment plan.

On 21st December 1995, the Company entered into the Bank Facility Agreement, which provides for a secured term loan facility of up to £1,000,000,000 with repayments due in instalments commencing in 1999, a revolving secured credit facility of up to £180,000,000 and an overdraft facility of up to £20,000,000. The total amount drawn down during the year under the Bank Facility Agreement was £315,000,000, bringing the total amount outstanding at 31st December 1996 to £715,000,000.

Borrowings may be made under the term loan facility until 31st December 1998 and shall be repaid in quarterly instalments from 31st March 1999 to 31st December 2003. Borrowings bear interest at a rate linked to LIBOR (6.56% at 31st December 1996) plus a margin of 1.5% (subject to downward adjustment) and Bank of England reserve asset costs.

During 1996 the Company entered into interest rate swap agreements against current borrowings, for a total nominal value of £600,000,000. The economic effect of these agreements is to fix the interest rates at 6.90% plus margin and Bank of England reserve costs, for an average remaining period of two years and two months.

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 16. Creditors: Amounts Falling Due In More Than One Year (continued)

The bank loans are repayable as follows:

	1996		1995	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Between two and three years	30,000	30,000	0	0
Between three and four years	105,000	105,000	20,000	20,000
Between four and five years	135,000	135,000	70,000	70,000
After five years	330,000	330,000	310,000	310,000
Less : term loan facility fee	(12,722)	(12,722)	(14,875)	(14,875)
	<u>587,278</u>	<u>587,278</u>	<u>385,125</u>	<u>385,125</u>

Finance lease commitments above exclude obligations in relation to the defeased lease (see note 5).

### 17. Provisions for liabilities and charges - Group

	Restructuring Provisions	Other	Total
	£'000	£'000	£'000
1st January 1996	27,465	292	27,757
Utilisation / amortisation	(2,236)	(29)	(2,265)
Released during the year	(2,791)	0	(2,791)
31st December 1996	<u>22,438</u>	<u>263</u>	<u>22,701</u>

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 18. Provisions for liabilities and charges - Company

	Restruct- uring Provisions £'000
1st January 1996	21,156
Released during period	(1,235)
Utilisation / amortisation	(1,574)
	<hr/>
31st December 1996	18,347
	<hr/>

### 19. Share Capital

	1996		1995	
	Number	£'000	Number	£'000
Authorised 'A' Ordinary shares of £1	1	0	1	0
Allotted, called up and fully paid 'A' Ordinary shares of £1	1	0	1	0
	<hr/>	<hr/>	<hr/>	<hr/>
Authorised 'B' Ordinary shares of £1	20,975,793	20,976	20,975,793	20,976
Allotted, called up and fully paid 'B' Ordinary shares of £1	20,975,793	20,976	20,975,793	20,976
	<hr/>	<hr/>	<hr/>	<hr/>
Authorised 'C' Ordinary shares of £1	9,681,135	9,681	9,681,135	9,681
Allotted, called up and fully paid 'C' Ordinary shares of £1	9,681,135	9,681	9,681,135	9,681
	<hr/>	<hr/>	<hr/>	<hr/>

### 20. Reserves - Group

	Profit & loss account £'000
1st January 1996	(593,265)
Loss for year	(217,378)
	<hr/>
31st December 1996	(810,643)
	<hr/>

The cumulative amount of goodwill at 31st December 1996 resulting from acquisitions to date, which has been written off directly against reserves, is £47,864,000 (1995 - £47,864,000).

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 21. Reserves - Company

	Capital reserve	Profit & loss account	Total
	£'000	£'000	£'000
1st January 1996	3,345	(105,382)	(102,037)
Profit for year	0	26,262	26,262
31st December 1996	<u>3,345</u>	<u>(79,120)</u>	<u>(75,775)</u>

The capital reserve represents the excess of net liabilities over the cost of an acquisition in 1990.

### 22. Reconciliation of Movements in Shareholders' Funds - Group

	1996	1995
	£'000	£'000
Opening shareholders' funds	(562,608)	(412,876)
Prior year adjustments		
- Subscriber acquisition costs	0	(5,745)
- Capitalised network interest costs	0	(16,335)
	<u>0</u>	<u>(22,080)</u>
Opening shareholders' funds (restated)	(562,608)	(434,956)
Loss for year	<u>(217,378)</u>	<u>(127,652)</u>
Closing shareholders' funds	<u>(779,986)</u>	<u>(562,608)</u>

### 23. Reconciliation of Movements in Shareholder's Funds - Company

	1996	1995
	£'000	£'000
Opening shareholders' funds	(71,380)	(46,520)
Profit /(Loss) for the year	<u>26,262</u>	<u>(24,860)</u>
Closing shareholders' funds	<u>(45,118)</u>	<u>(71,380)</u>

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 24. Investments - Group

Shares in holding company:

	<u>£'000</u>
Cost	
1st January 1996	0
Acquisition	<u>1,025</u>
31st December 1996	<u><u>1,025</u></u>

The investment in holding company shares are comprised of 500,224 ordinary shares with a nominal value of £100,045, valued at the flotation price of £2.05, held in trust to meet obligations under the Group's share schemes (see note 7). The loan to the employee benefit trust to enable it to acquire shares in the open market was made by the Company's subsidiary undertaking Orange Personal Communications Services Limited.

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 25. Investments - Company

Details of the principal subsidiary undertakings, all of which are wholly owned trading companies, are as follows:

Shares in subsidiary companies:

	<u>£'000</u>
<b>Cost</b>	
1st January 1996 and 31st December 1996	<u>112,962</u>

Details of the principal subsidiary companies are as follows:

Name of Company	Country of Incorporation and Operation	Principal Activities	Percentage of Equity
Orange Personal Communications Services Limited	England	Personal Communications Network Operator	100%
Hutchison Cellular Services Limited	England	Cellular Telephone Service Provider	100%
Hutchison Telephone (UK) Limited	England	Cellular Telephone Service Provider	100%
Hutchison Mobile Services Limited	England	Cellular Telephone Service Provider	100%
Hutchison Telecom Retail Limited	England	Retail Outlets	100%
Hutchison Personal Communications Limited	England	Provider of Mobile Digital Communications Services	100%
Hutchison Paging (UK) Limited	England	Paging Network Operator	100%
Hutchison Euromessage Limited	England	Paging Network Operator	100%
Hutchison Mobile Data (UK) Limited	England	Mobile Data Services	100%

All the above companies have been included in the Group consolidated accounts.

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 26. Reconciliation of Operating Loss to Operating Cashflows

	<u>1996</u>	<u>1995</u>
	£'000	£'000
Loss before interest	(178,062)	(117,754)
Depreciation	64,018	34,852
Amortisation of intangible fixed assets	124,969	64,522
Loss on sale of tangible fixed assets	1,243	4,953
Decrease / (Increase) in stocks	17,653	(27,906)
Increase in debtors	(43,134)	(11,752)
Decrease in provision and deferred income	(5,055)	(13,112)
Increase in creditors	64,076	30,004
Allocation of term loan facility fee	2,135	0
	<u>47,843</u>	<u>(36,193)</u>

### 27. Analysis of cash flows for headings netted in the cash flow

<b>Returns on investments and servicing of finance</b>	<u>1996</u>	<u>1995</u>
	£'000	£'000
Interest received	1,219	3,890
Interest paid	(30,464)	(109,694)
Interest on finance lease rental payments	0	(3)
Net cash outflow for returns on investments and servicing of finance	<u>(29,245)</u>	<u>(105,807)</u>

<b>Capital expenditure and financial investment</b>	<u>1996</u>	<u>1995</u>
	£'000	£'000
Purchase of tangible fixed assets	(225,438)	(149,958)
Purchase of intangible fixed assets	(137,805)	(99,892)
Purchase of own shares by employee benefit trust	(1,025)	0
Sale of tangible fixed assets	0	75
Net cash outflow for capital expenditure and financial investment	<u>(364,268)</u>	<u>(249,775)</u>

<b>Management of liquid resources</b>	<u>1996</u>	<u>1995</u>
	£'000	£'000
Cash withdrawn from / (deposited) on short term deposit	<u>82,756</u>	<u>(7,756)</u>

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 27. Analysis of cash flows for headings netted in the cash flow (continued)

Financing	1996	1995
	£'000	£'000
Drawdown of term bank loan facility	115,000	0
Loan from parent undertaking	7,970	0
Proceeds from the sale of network assets to lessor	53,195	395,789
Amounts placed on deposit with defeasance banks relating to the above	(44,688)	(331,722)
VAT on defeasance of finance leases	(69,346)	69,346
Debts due after more than one year :		
- Issue of deep discounted securities	0	205,000
- Repayment of deep discounted securities	0	(1,000,000)
- Drawdown of term bank loan facility	200,000	400,000
- Bank loan arrangement fee	(2,162)	(14,875)
- Loan from parent undertaking	3,413	655,276
Capital element of finance lease rental payments	(20)	(99)
Net cash inflow from financing	<u>263,362</u>	<u>378,715</u>

### 28. Analysis of net debt

	At 1st January 1996	Cash Flow	Other Non Cash Charges	At 31st December 1996
	£'000	£'000	£'000	£'000
Cash at bank and in hand	834	1,249	0	2,083
Overdrafts	(9,583)	(801)	0	(10,384)
		<u>448</u>		
Debt due after one year	(1,040,401)	(201,251)	(4,315)	(1,245,967)
Debt due within one year	0	(122,970)	2,180	(120,790)
Finance leases	(31)	20	0	(11)
		<u>(324,201)</u>		
Current asset investments	<u>82,756</u>	<u>(82,756)</u>	<u>0</u>	<u>0</u>
	<u>(966,425)</u>	<u>(406,509)</u>	<u>(2,135)</u>	<u>(1,375,069)</u>

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 29. Lease Commitments - Group

Amounts payable on operating leases expiring:

	Land and Buildings	Other	1996 Total	Land and Buildings	Other	1995 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Within one year	45	3,427	3,472	67	1,340	1,407
One to five years	282	16,439	16,721	86	7,792	7,878
Over five years	4,527	3,820	8,347	3,700	1,726	5,426
	<u>4,854</u>	<u>23,686</u>	<u>28,540</u>	<u>3,853</u>	<u>10,858</u>	<u>14,711</u>

### 30. Lease Commitments - Company

Amounts payable on operating leases expiring:

	Land and buildings	Other	1996 Total	Land and buildings	Other	1995 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Within one year	0	0	0	0	0	0
One to five years	261	0	261	0	0	0
Over five years	135	0	135	1,135	0	1,135
	<u>396</u>	<u>0</u>	<u>396</u>	<u>1,135</u>	<u>0</u>	<u>1,135</u>

### 31. Capital Commitments

	1996		1995	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Contracted for but not provided	<u>56,809</u>	<u>0</u>	<u>46,739</u>	<u>0</u>

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### **32. Related Party Transactions**

#### **(a) Recharge of expenses by Hutchison Whampoa Ltd**

During the year ended 31 December 1996 Hutchison Whampoa Ltd bore certain costs which were recharged to the Group including internal audit costs and the salaries and expenses of two directors and one key member of the management team. These recharged costs for the year ended 31st December 1996 were £333,000 (1995 - £700,000).

#### **(b) Lease guarantees**

As discussed in Note 5, the Group entered into further agreements with a lessor to sell and lease back additional Orange network equipment and certain related licensed software.

The principal shareholders of Hutchison Telecommunications (UK) Limited's parent undertaking, Orange plc, have each issued shareholder guarantees to the Lessor under which, on a several basis, Hutchison Whampoa Ltd (as to 48.22%) and British Aerospace plc (as to 21.91%) have guaranteed such payment obligations of the Group in excess of the defeasance deposits as might arise on termination of the leases up to an agreed limit.

#### **(c) Other guarantees**

Orange plc's principal shareholders or their affiliates have in the normal course of business entered into a number of guarantees in respect of the obligations of certain members of the Group. Orange plc and the principal shareholders have agreed to use all reasonable endeavours to procure the release of such guarantees. In the event that any such guarantees are not released, Orange plc has agreed, for so long as such guarantees and indemnities remain outstanding, to pay the relevant guarantor an annual fee equal to 1% of the total sums which it has guaranteed. Pending release, the following guarantees remain in force against which Orange plc has agreed to indemnify the relevant guarantor in respect of claims arising:

- Hutchison Telecommunications Limited has guaranteed the obligations of the Company under nine leases of various units at Foxholes Business Park, Hertford.

- British Aerospace plc has guaranteed the Group's contractual obligations under the Supply Agreement dated 20th June 1991 with Nokia Telecommunications Limited.

#### **(d) Other**

The property occupied by the Group at St James Court, Bristol is leased from British Aerospace plc, the immediate landlord, at a cost of £933,000 (1995 - £926,000).

#### **(e) Exemption for subsidiaries**

Hutchison Telecommunications (UK) Limited has taken advantage of the exemption in 'Financial Reporting Standard 8 Related Party Transactions' relating to subsidiaries.

Accordingly, transactions with the parent undertaking, Orange plc, and members of the Orange plc Group, have not been disclosed.

### **33. Financial Support**

It is the current intention of the shareholders of the parent undertaking, Orange plc, to make available sufficient funds to allow the Company to meet its obligations as they fall due.

### **34. Contingent Liabilities**

The Group is involved in litigation arising in the ordinary course of business. The claims are being vigorously defended and the Directors have made adequate provision based on legal advice for any liabilities expected to arise from these claims.

The Company has, under a bank facility agreement, secured substantially all the assets of the Group.

# HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1996

### 35. Auditors' Remuneration

	<u>1996</u>	<u>1995</u>
	<u>£'000</u>	<u>£'000</u>
Audit of the Company's statutory accounts	15	15
Audit of the UK subsidiary undertakings' statutory accounts	<u>207</u>	<u>182</u>
Total audit fees	<u>222</u>	<u>197</u>
Taxation	318	356
Other	<u>155</u>	<u>98</u>
Total fees paid to auditors for other services	<u>473</u>	<u>454</u>

### 36. Ultimate Holding Company

The ultimate holding company is Orange plc, a company incorporated in the United Kingdom. Copies of the Annual Report and accounts of Orange plc can be obtained from the Company Secretary at St James Court, Great Park Road, Almondsbury Park, Bradley Stoke, Bristol BS12 4QJ.