

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31ST DECEMBER 1997



HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

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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 1997.

Principal activities and business review.

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

The Group's principal activities during 1997 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 96% of the population on the 31st December 1997, having grown from 92% at the end of the previous year. The Orange subscriber base grew from 785,000 at 31st December 1996 to over 1,200,000 at 31st December 1997, which represented 14.2% of all cellular telephone subscribers in the UK. Turnover increased from £368.0 million in 1996 to £625.6 million in 1997.

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 £85.3 million in 1996 to £65.1 million in 1997, in line with a reduction in the subscriber base from 123,000 to 93,000 over the same period. Operating profit also decreased from £11.1 million to £5.6 million.

The paging business remained reasonably static over the period with a small decrease in subscriber base from 57,000 to 55,000 and turnover from £8.6 million to £8.3 million. A positive gross margin was maintained, and the operating loss fell from £2.9 million to £2.4 million.

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 ended 31st December 1997 of £133.0 million (1996 - £217.4 million).

The directors do not recommend the payment of a dividend in respect of the ordinary shares for the financial year ended 31st December 1997 (1996 - £nil).

The loss for the year of £133.0 million (1996 - £217.4 million) has therefore been transferred to reserves.

Political and charitable donations

The Group has made charitable donations of £10,500 (1996 - £7,500).

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.

The Group is very active in the forums which are developing the standards for future mobile communications services, with Group representatives holding key positions. The Group is seeking to ensure that Group policy is in keeping with the policies and strategies evolved in these forums.

Creditor payment policy

The Group's policy concerning the payment of its trade creditors complies with Confederation of British Industry guidelines but may also be varied by negotiation with individual suppliers.

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 whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

At 31st December 1997, Group trade creditors represented 23 days equivalent of aggregate amounts invoiced by suppliers during the year.

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

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 report of the remuneration committee contained in the annual report of that company.

Equal opportunities and 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 and has become a member of the UK's Employers' Forum on Disability to improve its understanding of the needs and potential of disabled people.

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 wherever appropriate.

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

DIRECTORS' REPORT (CONTINUED)

Employee involvement

The Group has ensured that employees are fully informed and involved in the business, through the use of various communication methods. As well as the distribution of a regular employee magazine, a series of employee roadshows and a management conference were held during the year. An intranet was established providing more information electronically.

Auditors

The Company's auditors are Price Waterhouse.

BY ORDER OF THE BOARD



Mark Paterson
Company Secretary

Date: 10th March 1998

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 1997

We have audited the financial statements on pages 6 to 28, which have been prepared under the historical cost convention and the accounting policies set out on pages 10 to 12.

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 1997 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
Southwark Towers,
32 London Bridge Street,
London, SE1 9SY.

Date: 10 MAR 1998

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 1997

	<u>Notes</u>	<u>1997</u> £'000	<u>1996</u> £'000
TURNOVER	1,2	701,917	473,059
Cost of sales		<u>(555,183)</u>	<u>(479,039)</u>
GROSS PROFIT/(LOSS)		146,734	(5,980)
Distribution costs		(98,886)	(83,636)
Administrative expenses		<u>(97,550)</u>	<u>(88,446)</u>
OPERATING LOSS	3	(49,702)	(178,062)
Interest receivable and similar income	4	326	1,167
Interest payable and similar charges	5	<u>(83,648)</u>	<u>(40,483)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(133,024)	(217,378)
Tax on loss on ordinary activities	8	<u>0</u>	<u>0</u>
LOSS FOR THE PERIOD	21	<u><u>(133,024)</u></u>	<u><u>(217,378)</u></u>

No acquisitions or discontinued operations have occurred.

There were no recognised gains and losses in the year other than the reported loss shown in the profit and loss account.

There is no difference between the results as reported and on a historical cost basis.

The notes on pages 10 to 28 form an integral part of these accounts.

The Company has no recognised gains or losses other than its profit of £27,383,000 (1996 - £26,262,000) (Note 22).

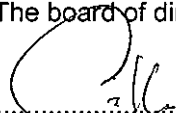
HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

CONSOLIDATED BALANCE SHEET AT 31ST DECEMBER 1997

	Notes	1997		1996	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Intangible assets	9	108,902		104,817	
Tangible assets	10	846,221		639,662	
Investments	12	<u>2,257</u>		<u>1,025</u>	
			957,380		745,504
CURRENT ASSETS					
Stocks	14	16,429		14,607	
Debtors	15	122,074		83,576	
Cash at bank and in hand	27	<u>2,151</u>		<u>2,083</u>	
		140,654		100,266	
CREDITORS: Amounts falling due within one year	16	<u>(530,538)</u>		<u>(357,088)</u>	
NET CURRENT LIABILITIES			<u>(389,884)</u>		<u>(256,822)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			567,496		488,682
CREDITORS: Amounts falling due in more than one year	17		(1,459,640)		(1,245,967)
PROVISIONS FOR LIABILITIES AND CHARGES	18		<u>(20,866)</u>		<u>(22,701)</u>
NET LIABILITIES			<u>(913,010)</u>		<u>(779,986)</u>
CAPITAL AND RESERVES					
Called up equity share capital	20		30,657		30,657
Profit and loss account	21		<u>(943,667)</u>		<u>(810,643)</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS			<u>(913,010)</u>		<u>(779,986)</u>

The notes on pages 10 to 28 form an integral part of these accounts.

The board of directors approved the accounts set out on pages 6 to 28 on the 10th March 1998.



 Graham E Howe
 Group Finance Director

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

COMPANY BALANCE SHEET AT 31ST DECEMBER 1997

	Notes	1997		1996	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible assets	11	1,249		2,038	
Investments	13	112,962		112,962	
			114,211		115,000
CURRENT ASSETS					
Debtors:					
Amounts falling due within one year	15	17,198		256	
Amounts falling due in more than one year	15	1,607,179		1,251,570	
Cash at bank and in hand		1,208		1,785	
			1,625,585		1,253,611
CREDITORS: Amounts falling due within one year	16	(281,075)		(149,415)	
NET CURRENT ASSETS			1,344,510		1,104,196
TOTAL ASSETS LESS CURRENT LIABILITIES			1,458,721		1,219,196
CREDITORS: Amounts falling due in more than one year	17		(1,459,640)		(1,245,967)
PROVISIONS FOR LIABILITIES AND CHARGES	19		(16,816)		(18,347)
NET LIABILITIES			(17,735)		(45,118)
CAPITAL AND RESERVES					
Called up equity share capital	20		30,657		30,657
Capital reserve	22		3,345		3,345
Profit and loss account	22		(51,737)		(79,120)
TOTAL EQUITY SHAREHOLDERS' FUNDS			(17,735)		(45,118)

The notes on pages 10 to 28 form an integral part of these accounts.

The board of directors approved the accounts set out on pages 6 to 28 on the **10 MAR 1998**



 Graham E Howe
 Group finance director

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 1997

	Notes	1997 £'000	1996 £'000
Cash flow from operating activities	25	192,480	47,843
Return on investments and servicing of finance	26	(85,670)	(29,245)
Taxation		0	0
Capital expenditure and financial investment	26	(461,050)	(364,268)
Management of liquid resources	26	0	82,756
Financing	26	348,151	263,362
(Decrease) / increase in cash	27	<u>(6,089)</u>	<u>448</u>
Reconciliation of net cash flow to movement in net debt		1997 £'000	1996 £'000
(Decrease) / increase in cash in the year		(6,089)	448
Cash inflow from increase in debt and lease financing		(348,151)	(324,201)
Cash (inflow) / outflow from (decrease) / increase in liquid resources		0	(82,756)
Change in net debt resulting from cash flows		<u>(354,240)</u>	<u>(406,509)</u>
Other non cash charges		<u>(2,112)</u>	<u>(2,135)</u>
Movement in net debt in the year		(356,352)	(408,644)
Net debt at 1st January 1997		<u>(1,375,069)</u>	<u>(966,425)</u>
Net debt at 31st December 1997		<u><u>(1,731,421)</u></u>	<u><u>(1,375,069)</u></u>

The notes on pages 10 to 28 form an integral part of these accounts.

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1997

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.

The Group, in its 1996 financial statements, adopted earlier than the mandatory date specified (of accounting periods ending on or after 23 March 1997) the recommendations set out in FRS1 (Revised) - "Cash Flow Statements". It has therefore not been necessary to restate the prior year comparative figures.

Management believes that cash from operations together with borrowings under the Bank Facility Agreement (see note 17) 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. Acquisitions made by the Group are included under the acquisition method of accounting and the consolidated financial statements include the results of subsidiary undertakings 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	20%
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 1997

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 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 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 1997

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.

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 on a straight line basis.

(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

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of those transactions, adjusted for the effects of any hedging arrangements. Foreign currency monetary assets and liabilities are translated into sterling at year end rates.

(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) Investments

Investments, held as fixed assets, comprise equity shareholdings, partnership interests and long term loans and are stated at cost less provision for any permanent diminution in value. Income is recognised upon receipt of dividends or interest when receivable.

(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 1997

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>1997</u>	<u>1996</u>
	£'000	£'000
Orange	625,645	368,037
Cellular Services	65,076	85,304
Paging	8,305	8,635
Other	<u>2,891</u>	<u>11,083</u>
	<u><u>701,917</u></u>	<u><u>473,059</u></u>

b) Operating (loss) / profit

	<u>1997</u>	<u>1996</u>
	£'000	£'000
Orange	(50,327)	(188,169)
Cellular Services	5,574	11,100
Paging	(2,371)	(2,922)
Other	<u>(2,578)</u>	<u>1,929</u>
	<u><u>(49,702)</u></u>	<u><u>(178,062)</u></u>

c) Net liabilities

	<u>1997</u>	<u>1996</u>
	£'000	£'000
Orange	(598,922)	(435,295)
Cellular Services	(28,714)	(34,291)
Paging	(43,479)	(41,108)
Other	<u>(241,895)</u>	<u>(269,292)</u>
	<u><u>(913,010)</u></u>	<u><u>(779,986)</u></u>

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.

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1997

3. Operating loss

	<u>1997</u>	<u>1996</u>
	£'000	£'000
Operating loss is stated after charging:		
Depreciation of tangible fixed assets		
- owned	44,913	26,769
- leased	55,733	37,249
Directors' emoluments (see note 7)	1,140	1,176
Staff costs (see note 6)	79,475	64,362
Research and development costs	851	687
Amortisation and write off of intangible fixed assets	160,713	124,969
Operating lease rentals		
- land and buildings	5,724	4,331
- other	33,256	25,671
Loss on sale of fixed assets	<u>288</u>	<u>1,284</u>

4. Interest receivable and similar income

	<u>1997</u>	<u>1996</u>
	£'000	£'000
Bank interest receivable	<u>326</u>	<u>1,167</u>

5. Interest payable and similar charges

	<u>1997</u>	<u>1996</u>
	£'000	£'000
Bank loans and overdrafts	82,187	48,575
Interest paid to parent undertaking	459	120
Other loans	1,002	295
	<u>83,648</u>	<u>48,990</u>
Gain on defeasance of finance leases	<u>0</u>	<u>(8,507)</u>
	<u>83,648</u>	<u>40,483</u>

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1997

5. Interest payable and similar charges(continued)

Gain on defeasance of finance leases

The exceptional profit for 1996 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.

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 £395.4 million at 31st December 1997 (1996 - £376.4 million), together with the interest earned thereon, will be used to settle the Group's rental obligations under the leases. The gain of £8,507,000 for 1996 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. During the year the Group replaced indemnities from Hutchison Whampoa Limited and British Aerospace plc with insurance in respect of any amounts payable to the Lessor in these 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 made provision of £5.8 million based on the directors' assessment of likely outcomes, for possible future costs arising from such variations in arriving at the profit recognised.

6. Staff numbers and costs

The average number of persons employed by the Group during the period was as follows :

	<u>1997</u>	<u>1996</u>
	Number	Number
Telecommunications	<u>4,025</u>	<u>3,165</u>
The aggregate payroll costs of these persons were as follows:		
	<u>1997</u>	<u>1996</u>
	£'000	£'000
Wages and salaries	69,995	56,686
Social security costs	6,661	5,598
Other pension costs	<u>2,819</u>	<u>2,078</u>
	<u>79,475</u>	<u>64,362</u>

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1997

6. Staff numbers and costs (continued)

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 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 1997 was 1,067,700 (1996 - 500,224) which had a market value at that date of £2,850,759 (1996 - £940,421) and a nominal value of £213,540 (1996 - £100,045).

7. 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. Consequently, an allocation has been made of their emoluments for services to the Company. The aggregate allocated emoluments excluding pension contributions for the year ended 31st December 1997 amounted to £1,093,000 (1996 - £1,145,000). The aggregate allocation of pension contributions was £47,000 (1996 - £31,000). The allocated emoluments of the highest paid director were £571,000 (1996 - £606,000).

8. Tax on loss on ordinary activities

The corporation tax charge for the year is £nil (1996 - £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.

9. Intangible fixed assets - Group

	Subscriber acquisition costs	Network development costs	Total
	£'000	£'000	£'000
Cost			
1st January 1997	268,818	44,468	313,286
Expenditure during the year	164,798	0	164,798
31st December 1997	<u>433,616</u>	<u>44,468</u>	<u>478,084</u>
Amortisation			
1st January 1997	192,430	16,039	208,469
Charged in year	156,000	4,713	160,713
31st December 1997	<u>348,430</u>	<u>20,752</u>	<u>369,182</u>
Net book amount			
31st December 1997	<u>85,186</u>	<u>23,716</u>	<u>108,902</u>
31st December 1996	<u>76,388</u>	<u>28,429</u>	<u>104,817</u>

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1997

10. Tangible fixed assets - Group

	Freehold land and buildings	Short leasehold improvements	Networks	Fixtures, fittings and equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
1st January 1997	9,928	9,797	712,869	75,562	808,156
Additions	5,475	1,800	266,356	33,862	307,493
Disposals	0	0	0	(1,022)	(1,022)
31st December 1997	<u>15,403</u>	<u>11,597</u>	<u>979,225</u>	<u>108,402</u>	<u>1,114,627</u>
Depreciation					
1st January 1997	1,674	3,222	123,182	40,416	168,494
Charged in the year	204	676	86,904	12,862	100,646
Disposals	0	0	0	(734)	(734)
31st December 1997	<u>1,878</u>	<u>3,898</u>	<u>210,086</u>	<u>52,544</u>	<u>268,406</u>
Net book amount					
31st December 1997	<u>13,525</u>	<u>7,699</u>	<u>769,139</u>	<u>55,858</u>	<u>846,221</u>
31st December 1996	<u>8,254</u>	<u>6,575</u>	<u>589,687</u>	<u>35,146</u>	<u>639,662</u>

Network includes assets held under a finance lease with a cost of £449,458,589 at 31st December 1997 (1996 - £449,458,589) (see note 5).

The accumulated depreciation on these assets was £110,583,000 at 31st December 1997 (1996 - £54,850,000).

Network assets include capitalised interest of £16,892,000 (1996 - £16,892,000) with a net book value of £12,696,370 (1996 - £14,790,978).

Fixtures, fittings and equipment include assets held under finance leases of £2,685,000 (1996 - £2,685,000) at 31st December 1997. Such assets had accumulated depreciation of £2,685,000 (1996 - £2,685,000) at 31st December 1997. The depreciation on these assets in 1997 was £nil (1996 - £nil).

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1997

11. Tangible fixed assets - Company

	Short leasehold improvements £'000	Fixtures, fittings and equipment £'000	Total £'000
Cost			
1st January 1997 and 31st December 1997	4,317	2,086	6,403
Depreciation			
1st January 1997	2,625	1,740	4,365
Charged in the year	447	342	789
31st December 1997	3,072	2,082	5,154
Net book amount			
31st December 1997	1,245	4	1,249
31st December 1996	1,692	346	2,038

12. Investments - Group

Shares in holding company:

	£'000
Cost	
1st January 1997	1,025
Acquisition	1,232
31st December 1997	2,257

The investment in ultimate holding company shares is held in trust to meet obligations under Orange plc's share schemes (see note 6). During the year 571,210 ordinary shares were acquired by the trust (nominal value £114,242, market value at date of purchase £1,231,720). At 31 December 1997 the trust held 1,067,000 (1996 - 500,224) ordinary shares (nominal value of £213,400, market value £2,850,759 (1996 - £940,421)). A loan was made by the Group to the employee benefit trust to enable it to acquire shares in the open market.

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1997

13. Investments - Company

Shares in subsidiary companies:

	<u>£'000</u>
Cost	
1st January 1997 and 31st December 1997	<u><u>112,962</u></u>

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

Name of company	Country of incorporation and operation	Principal activities
Orange Personal Communications Services Limited	England	Personal communications network operator
Hutchison Cellular Services Limited	England	Cellular telephone service provider
Hutchison Telephone (UK) Limited	England	Cellular telephone service provider
Hutchison Mobile Services Limited	England	Cellular telephone service provider
Hutchison Telecom Retail Limited	England	Operator of retail outlets
Hutchison Personal Communications Limited	England	Telephone network service provider
Hutchison Paging (UK) Limited	England	Paging network operator
Hutchison Euromessage Limited	England	Paging network operator
Hutchison Mobile Data (UK) Limited	England	Mobile data services

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

14. Stocks - Group

	<u>1997</u>	<u>1996</u>
	<u>£'000</u>	<u>£'000</u>
Finished goods and goods for resale	<u>16,429</u>	<u>14,607</u>
Stocks principally comprise handsets for use with the Orange network.		

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1997

15. Debtors

	1997		1996	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Trade debtors	48,304	0	38,637	0
Amounts due from parent undertaking	16,907	16,905	0	0
Amounts due from fellow subsidiary undertakings	774	1,607,179	1,966	1,251,570
Other debtors	25,398	9	21,379	0
Prepayments and accrued income	30,691	284	21,594	256
	<u>122,074</u>	<u>1,624,377</u>	<u>83,576</u>	<u>1,251,826</u>

The amounts due from fellow subsidiary undertakings of £1,607,179 (1996 - £1,251,570) is due to the Company in more than one year.

Group other debtors include £3,583,000 (1996 - £2,322,000) which is due after more than one year.

16. Creditors: amounts falling due within one year

	1997		1996	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Bank loans and overdrafts	273,932	263,424	123,204	118,222
Trade creditors	52,596	0	46,832	0
Amounts owed to parent undertakings	0	0	7,970	7,970
Amounts owed to fellow subsidiary undertakings	0	1,334	50	1,382
Other creditors	46,999	908	13,868	917
Taxation and social security	4,151	209	4,896	944
Accruals and deferred income	152,860	15,200	160,257	19,980
Finance lease commitments	0	0	11	0
	<u>530,538</u>	<u>281,075</u>	<u>357,088</u>	<u>149,415</u>

Bank loans and overdrafts include £260,000,000 (1996 - £115,000,000) under the Bank Facility Agreement (see note 17).

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1997

17. Creditors: amounts falling due in more than one year

	1997		1996	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Bank loans	804,364	804,364	587,278	587,278
Loan owed to Parent undertaking	655,276	655,276	658,689	658,689
	<u>1,459,640</u>	<u>1,459,640</u>	<u>1,245,967</u>	<u>1,245,967</u>

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

On 19th December 1997, the Company entered into a revised Bank Facility Agreement, which provides for a secured term loan facility of up to £1,350,000,000 with repayments due in instalments commencing in 2001, a revolving secured credit facility of up to £350,000,000 and an overdraft facility of up to £50,000,000.

Borrowings may be made under the term loan facility until 31st December 2000 and shall be repaid in quarterly instalments from 31st March 2001 to 31st December 2005. Borrowings bear interest at a rate linked to LIBOR (3 month LIBOR at 31st December 1997 was 7.69%) plus a margin of 1.0% (subject to downward adjustment) and Bank of England reserve asset costs.

During 1997 the Company increased the amount of nominal interest rate cover on current borrowings from £600,000,000 to £900,000,000 and entered into new forward agreements to extend the cover where existing agreements matured. The maximum cover is forecast to be £1,000,000,000 in the first half of 1999. The economic effect of these agreements is to fix the interest rates at 7.01% plus margin and Bank of England reserve costs, for an average remaining period of three years and nine months.

The debt falling due after more than one year is repayable as follows:

	1997		1996	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Between two and three years	0	0	30,000	30,000
Between three and four years	61,697	61,697	105,000	105,000
Between four and five years	123,395	123,395	135,000	135,000
After five years	1,292,817	1,292,817	330,000	330,000
Less : term loan facility fee	(18,269)	(18,269)	(12,722)	(12,722)
Total due for repayment after more than one year	<u>1,459,640</u>	<u>1,459,640</u>	<u>587,278</u>	<u>587,278</u>

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1997

18. Provisions for liabilities and charges - Group

	Restructuring provisions	Other	Total
	£'000	£'000	£'000
1st January 1997	22,438	263	22,701
Utilisation / amortisation	(1,805)	(30)	(1,835)
31st December 1997	<u>20,633</u>	<u>233</u>	<u>20,866</u>

19. Provisions for liabilities and charges - Company

	Restructuring provisions
	£'000
1st January 1997	18,347
Utilisation	(1,531)
31st December 1997	<u>16,816</u>

20. Share capital

	1997		1996	
	Number	£'000	Number	£'000
Authorised 'A' ordinary shares of £1	<u>1</u>	<u>0</u>	<u>1</u>	<u>0</u>
Allotted, called up and fully paid 'A' ordinary shares of £1	<u>1</u>	<u>0</u>	<u>1</u>	<u>0</u>
Authorised 'B' ordinary shares of £1	<u>20,975,793</u>	<u>20,976</u>	<u>20,975,793</u>	<u>20,976</u>
Allotted, called up and fully paid 'B' ordinary shares of £1	<u>20,975,793</u>	<u>20,976</u>	<u>20,975,793</u>	<u>20,976</u>
Authorised 'C' ordinary shares of £1	<u>9,681,135</u>	<u>9,681</u>	<u>9,681,135</u>	<u>9,681</u>
Allotted, called up and fully paid 'C' ordinary shares of £1	<u>9,681,135</u>	<u>9,681</u>	<u>9,681,135</u>	<u>9,681</u>

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1997

21. Reserves - Group

	Profit and loss account £'000
1st January 1997	(810,643)
Loss for the year	<u>(133,024)</u>
31st December 1997	<u><u>(943,667)</u></u>

The cumulative net amount of goodwill at 31st December 1997 resulting from acquisitions to date, which has been written off directly to reserves, is £47,864,000 (1996 - £47,864,000).

22. Reserves - Company

	Capital reserve £'000	Profit and loss account £'000	Total £'000
1st January 1997	3,345	(79,120)	(75,775)
Profit for the year	<u>0</u>	<u>27,383</u>	<u>27,383</u>
31st December 1997	<u><u>3,345</u></u>	<u><u>(51,737)</u></u>	<u><u>(48,392)</u></u>

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

23. Reconciliation of movements in shareholders' funds - Group

	1997 £'000	1996 £'000
Opening shareholders' funds	(779,986)	(562,608)
Loss for the year	<u>(133,024)</u>	<u>(217,378)</u>
Closing shareholders' funds	<u><u>(913,010)</u></u>	<u><u>(779,986)</u></u>

24. Reconciliation of movements in shareholder's funds - Company

	1997 £'000	1996 £'000
Opening deficit of equity shareholders' funds	(45,118)	(71,380)
Profit for the year	<u>27,383</u>	<u>26,262</u>
Closing deficit of equity shareholders' funds	<u><u>(17,735)</u></u>	<u><u>(45,118)</u></u>

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1997

25. Reconciliation of operating loss to operating cashflows

	1997	1996
	£'000	£'000
Operating loss	(49,702)	(178,062)
Depreciation	100,646	64,018
Amortisation of intangible fixed assets	160,713	124,969
Loss on disposal of tangible fixed assets	288	1,243
(Increase)/Decrease in stocks	(1,822)	17,653
Increase in debtors	(38,498)	(43,134)
Decrease in provisions for liabilities and charges	(1,835)	(5,055)
Increase in creditors	22,690	64,076
Allocation of term loan facility fee	0	2,135
	<u>192,480</u>	<u>47,843</u>

26. Analysis of cash flows for headings netted in the cash flow

Returns on investments and servicing of finance	<u>1997</u>	<u>1996</u>
	£'000	£'000
Interest received	326	1,219
Interest paid	(85,996)	(30,464)
Net cash outflow for returns on investments and servicing of finance	<u>(85,670)</u>	<u>(29,245)</u>
Capital expenditure and financial investment	<u>1997</u>	<u>1996</u>
	£'000	£'000
Expenditure on tangible fixed assets	(295,020)	(225,438)
Expenditure on intangible fixed assets	(164,798)	(137,805)
Purchase of own shares by employee benefit trust	(1,232)	(1,025)
Net cash outflow for capital expenditure and financial investment	<u>(461,050)</u>	<u>(364,268)</u>
Management of liquid resources	<u>1997</u>	<u>1996</u>
	£'000	£'000
Cash withdrawn from short term deposit	<u>0</u>	<u>82,756</u>

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1997

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

Financing	1997 £'000	1996 £'000
Bank loans drawdown	145,000	115,000
Loan from parent undertaking	(7,970)	7,970
Proceeds from the sale of network assets to lessor	0	53,195
Amounts placed on deposit with defeasance banks relating to the above	0	(44,688)
VAT on defeasance of finance leases	0	(69,346)
Debts due after more than one year :		
- long term bank loan drawdown	222,633	200,000
- bank term loan arrangement fee	(8,099)	(2,162)
- loan from parent undertaking	(3,413)	3,413
Capital element of finance lease rental payments	0	(20)
Net cash inflow from financing	<u>348,151</u>	<u>263,362</u>

27. Analysis of net debt

	At 1st January 1997 £'000	Cash flow £'000	Other non cash charges £'000	At 31st December 1997 £'000
Cash at bank and in hand	2,083	68	0	2,151
Overdrafts	(10,384)	(6,157)	0	(16,541)
		<u>(6,089)</u>		
Debt due after 1 year	(1,245,967)	(211,131)	(2,542)	(1,459,640)
Debt due within 1 year	(120,790)	(137,031)	430	(257,391)
Finance leases	(11)	11	0	0
		<u>(348,151)</u>		
	<u>(1,375,069)</u>	<u>(354,240)</u>	<u>(2,112)</u>	<u>(1,731,421)</u>

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1997

28. Lease commitments - Group

Operating leases payments payable within one year of the balance sheet date were in respect of leases expiring:

	Land and buildings	Other	1997 Total	Land and buildings	Other	1996 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Within one year	56	4,119	4,175	45	3,427	3,472
Between one and five years	317	22,168	22,485	282	16,439	16,721
After five years	5,721	4,644	10,365	4,527	3,820	8,347
	<u>6,094</u>	<u>30,931</u>	<u>37,025</u>	<u>4,854</u>	<u>23,686</u>	<u>28,540</u>

29. Lease commitments - Company

Operating leases payments payable within one year of the balance sheet date were in respect of leases expiring:

	Land and buildings	Other	1997 Total	Land and buildings	Other	1996 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Within one year	0	0	0	0	0	0
Between one and five years	261	0	261	261	0	261
After five years	135	0	135	135	0	135
	<u>396</u>	<u>0</u>	<u>396</u>	<u>396</u>	<u>0</u>	<u>396</u>

30. Capital commitments

	1997		1996	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Contracts placed for capital expenditure but not provided for in the financial statements	<u>102,621</u>	<u>0</u>	<u>56,809</u>	<u>0</u>

HUTCHISON TELECOMMUNICATIONS (UK) LIMITED

NOTES TO THE ACCOUNTS **FOR THE YEAR ENDED 31ST DECEMBER 1997**

31. Related party transactions

- (a) Recharge of expenses by Hutchison Whampoa Ltd

During the year ended 31 December 1997 Hutchison Whampoa Ltd bore internal audit costs of £200,000 which were recharged to the Group (1996 - £333,000).

- (b) Lease guarantees

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 68.42%) and British Aerospace plc (as to 31.58%) 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 £783,000 (1996 - £933,000).

- (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.

32. 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.

33. 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 1997

34. Auditors' remuneration

	<u>1997</u>	<u>1996</u>
	<u>£'000</u>	<u>£'000</u>
Total audit fees	<u>194</u>	<u>222</u>
Fees paid to auditors for other services:		
Taxation	484	318
Other	<u>53</u>	<u>155</u>
Total fees paid to auditors for other services	<u>537</u>	<u>473</u>

Audit fees charged in respect of the Company were £31,000 (1996 - £21,000).

35. 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.