Earnings Management Through Consolidation: Hutchison Telecommunication International Limited

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ABSTRACT

This paper uses a case study approach to analyze how three corporations; namely, Hutchison Whampoa Limited (HWL), Hutchison Telecommunication International Limited (HTIL), and Hutchison Telecommunication Hong Kong Holdings, managed earnings through consolidation. The author finds that HWL, by listing, reducing, and increasing its shareholding in HTIL, improved its levels of profitability during the study period of 2004–2010. Furthermore, HTIL spun off its Hong Kong and Macau businesses to improve its profitability directly and that of HWL indirectly. Finally, HWL privatized HTIL in 2010. The author demonstrates that although HTIL was listed on the Hong Kong Stock Exchange, HTIL and HWL improved their share performances by managing earnings through consolidation techniques.

Keywords: Earnings Management; Consolidation; Case Study

INTRODUCTION OF CASE COMPANIES

Background of Hutchison Whampoa Limited (HWL)

HWL is a listed corporation in Hong Kong (stock code: 0013) that is considered to be one of the most technologically advanced and marketing-savvy telecommunications operators in Asia[1]. As well as providing telecommunication services under three brands across 14 countries, it is also a leading port operator, retailer, and property and infrastructure developer. HWL is 49.97% owned by the Cheung Kong Group (Stock code: 0001), which is also listed on the Hong Kong Stock Exchange (SEHK). HWL's flagship companies include Hutchison Port Holdings, Hutchison Telecom, Hutchison Whampoa Properties, A.S. Watson, and Cheung Kong Infrastructure.

Background of Hutchison Telecommunication International Limited (HTIL)

HTIL[2], which was listed on the SEHK between 2003 and 2010 (stock code: 2332), was a leading provider of telecommunication services in the world. The company offered mobile and fixed-line telecommunication services in Hong Kong, Macau, India, and Israel and mobile-only telecommunication services in Indonesia, Vietnam, Sri Lanka, and Thailand. Before its privatization in 2010, it was the first provider of 3G mobile services in Hong Kong and Macau and later provided GSM services in Vietnam and Sri Lanka and CDMA technology services in Indonesia and Thailand. In addition to being listed on the SEHK, its American Depositary Shares were also traded on the New York Stock Exchange (NYSE). HTIL became a wholly owned subsidiary of the HWL in mid-2010[3].

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[1] Information from the firm website: http://www.hutchison-whampoa.com/eng/index.htm.
[2] For more information about Hutchison Telecom, see www.htil.com.
[3] Source: Modified from HWL's website: http://www.hutchison-whampoa.com/eng/about/milestones/1960.htm#1960.

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Background of Hutchison Telecommunication Hong Kong Holdings Limited (HTHK)

Hutchison Telecommunication Hong Kong Holdings Limited (HTHK) is a listed company in Hong Kong Stock Exchange (Stock Code: 0215) by way of introduction. HTHK provides telecommunication services in Hong Kong under the brand name "3". Its product range includes broadband, fixed-line communication, Wi-Fi, and IDD services to carrier customers in Hong Kong and overseas[4]. In 2010, HTHK was included in the Hang Seng Composite Industry Index (Telecommunications) and Hang Seng Composite Small Cap Index. For the year ending 2008, its turnover was USD 1,044 million and profit was USD 61 million before its listing on the SEHK (stock code: 0215). HTIL, a wholly owned subsidiary of HWL, holds a controlling stake in HTHK.

COMPANY HISTORIES

History of HWL

The origins of HWL can be traced back to the 19th century merger of Hong Kong and Whampoa Dock, founded in Hong Kong in 1863, and Hutchison International founded in 1877. In 1960, Hutchison International acquired a controlling stake in Hong Kong and Whampoa Dock and later formed HWL in 1977. After running into financial difficulties, it was rescued by HSBC, which two years later sold it to the Cheung Kong Group. From the 1980s onward, HWL started to penetrate into different industries, including property development, retail, electricity supply, hotel and tourism, financial services, supermarkets, telecommunications, natural resources, broadcasting, infrastructure, and transportation through joint ventures or partnerships, acquisitions, and self-development (see Exhibit 1 in the Appendix for more details: HWL History 1970-2010).

As an example of its strategy to expand through acquisitions[5], it acquired the PARKnSHOP supermarket chain in 1973 in order to provide a stable cash flow for HWL and its subsidiaries. In 1977, Hutchison International Limited merged with Hong Kong and Whampoa Dock Company Limited and three years later, HWL created the Hutchison Whampoa Property Group. In 1985, HWL acquired a controlling stake in Hong Kong Electric Holdings for USD 373 million. This became the engine of growth for HWL for the next 10 years because of the rapid economic development and resulting soaring demand for electricity in Hong Kong. In 1987, HWL acquired 43% of Husky Oil in Canada while in 1990, Fortress joined the A.S. Watson Group. HWL also acquired substantial holdings in Felixstowe, Britain's premier container port, in 1990 and took a 50% holding in a Shanghai container port two years later.

History of HTIL

Although HTIL was originally part of HWL, in 1999, Hutchison Telecom sold Orange and reinvested into 3G mobile services. In 2004, HWL spun off its telecommunication business (later renamed HTIL) and listed it on the SEHK. However, it kept its UK and European 3G businesses within HWL because they provided large cash flows for investing into 3G infrastructure. Besides its operations in Hong Kong and Macau, HTIL globalized its telecommunication business across Asia and the Middle East, including India, Israel, Sri Lanka, Indonesia, Vietnam, and Thailand (adopted from Exhibit 2 in the Appendix). In 2007, it sold a 67% stake of its Indian business to Vodafone for USD 1.7 billion[6]. Two years later, HTIL spun off HTHK and listed it on the SEHK (stock code: 0215) as its rate of return was too low. Spinning off and going public improved the profitability of HTIL (see Exhibit 3 in the Appendix and for further discussion, see the Case Analysis section).

History of HTHK

HTIL was granted a license to operate mobile services under the AMPS cellular radiotelephone network in 1984. In 1995, it launched GSM mobile services in Hong Kong and began to provide fixed-line services under the brand name HGC. In 2001, Hutchison Macau started providing GSM mobile services in

[4] Source: Modified from 2009 HTHK Annual Report P.4.
[5] Source: Modified from HWL's website: http://www.hutchison-whampoa.com/eng/about/milestones/1960.htm#1960.
[6] From 2008 Annual report p. 35.

Macau, while three years later it became the first operator to launch a 3G service in Hong Kong. HTIL now provides mobile services under the brand name "3". Hutchison Macau also provides 3G services in Macau (for more details, see the corporate structure of HTHK in Exhibit 4 in the Appendix).

CASE ANALYSIS

Introduction to IAS 27 Accounting for Consolidation[7]

Based on the definition provided by IAS 27, shareholders are the owners of a corporation. According to IAS 27, a corporation controls the composition of the board of the directors of another corporation, controls more than half of the voting power of another corporation, or holds more than half of the issued share capital of another corporation.

When one corporation (i.e., holding) acquires the control of another (i.e., subsidiary), its shareholders need to know the financial circumstances of not only the holding corporation, but also the group, in order to assess their investments. From the group's accounts, investors are thus able to assess the liquidity and financial stability or gearing of the group in order to aid investment decisions. Further, the unrealized profit arising from inter-company transactions can also be eliminated. IAS 27 thus has two aims: 1) to prepare and present the consolidated financial statements as a group under the controlling corporation and 2) to ensure the correct accounting treatment for investments in subsidiaries, joint controlled firms, and associates.

A holding corporation is required to present consolidated financial statements for all its subsidiaries except in the following three circumstances: 1) the parent is itself a wholly-owned subsidiary or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to the parent not presenting consolidated financial statements (see HTIL's annual report 2005); 2) when a parent corporation's equity instruments are not traded in a public market; or 3) when an ultimate or intermediate parent produces the consolidated financial statements in accordance with IFRS. Further, consolidated financial statements must be prepared under the same accounting policies while non-controlling interest must be separately shown under equity.

The partial disposal of an investment in a subsidiary can be classified into two cases:

1. When control is retained: Under these circumstances, the sale transaction is treated as one owner transferring his/her shares to another and thus no gain or loss on disposal is recognized. For example, HWL disposed of 29% of HTIL's interests to the public (for more details, see the Earnings Management section).
2. When control is not retained: Under these circumstances, parties need to recognize the gain or loss on the disposal of the shares in subsidiaries. This gain or loss is the difference between the fair value and carrying amount of the holding. For example, HWL sold 21% of HTIL's interest (for more details, see the HTIL's Share Performance after the Announcement of Earnings section). This is why the ownership, directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investor does not constitute control.

Disclosures Required in Consolidated Financial Statements

- Nature of relationship between the parent and a subsidiary when the parent does not directly or indirectly own more than 50% voting power of a subsidiary.
- The reason why direct or indirect ownership through subsidiaries of more than 50% voting power of investee doesn't constitute the control.
- The reporting date of financial statements from a subsidiary and the reasons of difference when the date of such financial statements used by a subsidiary is different from the parent.

[7] Modified from Deloitte IAS Plus: Summary of International Financial Reporting Standards

HTIL Listing in 2004

In September 2004, HWL and HTIL were working on spinning off the telecommunication business in Hong Kong, India, Israel, Thailand, Sri Lanka, Paraguay, Ghana, and Macau listed on the SEHK. One month later, HTIL's American Depositary Shares began to be traded on the NYSE. Thereafter, based on HKAS 27, HTIL was required to prepare its consolidated financial statements, income statements, and cash flow statements for 2003 and 2004 for comparison purposes. All intra-company transactions also needed to be eliminated during the process of consolidation[8] (for more details on IAS 27 and HKAS 27, please see the Introduction to IAS 27 Accounting for Consolidation section).

HWL primarily listed HTIL in order to sell 29% of its shares to the public and thus improve profitability, although it still needed to consolidate HTIL's financial reports in 2004 as it had retained 70% of the firm. Exhibit 5 (in the Appendix) shows that HTIL generated a low level of profit in 2004. If HWL had decided not to list HTIL, Hutchison would not have dripped down its profit as it would not have generated a gain on disposal of USD 527 million in the 2004 annual report. Thus, because it still held 100% of HTIL, return on sales would have decreased from 7.2% to 4.16% and shareholder profit would have decreased from USD 2,073 million to USD 1,558 million. Therefore, HWL wanted to list HTIL in 2004 in order to increase its overall profit.

Whether HWL held 70% or 100% of the shares, there was no great difference in assets and liabilities except cash and cash equivalents, which would have increased by USD 990 million following the disposal of approximately 30% of HWL's interest in HTIL (see Exhibit 6 in the Appendix). Furthermore, retained earnings would have also increased the gain on disposal by USD 530 million. The remaining capital and reserves of HTIL would then transfer to non-controlling interest.

Moreover, after the consolidation of all HTIL companies' balance sheets and income statements, the return on equity, return on sales, and asset turnover of the group would have reduced by 4.72%, 4.16%, and 2.07 times, respectively, compared with 6.18%, 7.2%, and 0.208 times with 70% of HTIL (see Exhibit 6, Part B, in the Appendix). These ratios reflect the fact that listing HTIL would have increased shareholder profitability. Thus, HWL aimed to reduce the shareholding to 70% in order to improve the group's overall performance.

There were two other reasons behind the decision to list. First, the listing of HTIL generated an immediate gain of USD 0.53 billion, including sales of 4.2% to its business partner NTT DoCoMo. This profit was recorded in HWL's 2004 income statement. Second, HTIL going public helped the firm reduce its future cost of capital in order to acquire more telecommunication businesses from overseas. On 30 September 2004, the CEO of HTIL announced to the press (*Apple Daily*) that the intention to list HTIL was not to generate more cash, as HWL had more than $1.55 billion in cash reserves at that time, but to acquire new funds to invest in telecommunication projects in East Asia, Eastern Europe, and the Middle East.

HWL Reducing its Shares in HTIL in 2005

During 2005, HWL sold 19.3% of its interest in HTIL, meaning that HTIL was no longer a subsidiary of HWL, as it owned only 49.8% of HTIL. Based on the accounting policy regarding consolidation introduced in the Introduction to IAS 27 Accounting for Consolidation section, a firm only treats a corporation as a subsidiary when the group directly or indirectly controls more than 50% of the equity voting rights or issued share capital[9]. Thus, HWL did not need to consolidate with HTIL because its voting rights and issued share capital was less than 50% and it did not control the board of directors. Under the shareholder agreement, HWL

[8] Refer to 2004 Annual Report P.86 – 87.
[9] Please refer to HWL 2005 annual report p. 138.

sold 19.3% of HTIL's interest to Orascom Telecom[10], which nominated two non-executive directors onto the nine-member board of Hutchison Telecom. Apart from the three independent non-executive directors, HWL nominated two non-executive and two executive directors. In summary, HTIL no longer needed to consolidate with HWL[11].

HWL disposed of a little under 50% of its shares in HTIL in December 2005 in order to improve the group's performance. As discussed, if HTIL were still a subsidiary of HWL, according to HKAS 27, HWL would have needed to consolidate with it, thereby negatively affecting group performance in that year. Therefore, the group executed a strategic disposal during 2005 in order to realize significant cash proceeds and non-recurring profit. The sale to Orascom Telecom[12] generated a profit of USD 951 million, which increased net profit in 2005 and increased cash by USD 1,298 million (equivalent to $1.42 per HTIL share) on the balance sheet (see Exhibits 7 and 8). By contrast, without this disposal, HTIL's profit in 2005 would have reduced from USD 1,742 million to USD 781 million.

Table 1 shows that HWL decreased its holding percentage in HTIL to 49.8% in 2005 to increase earnings. Indeed, return on sales increased from 2.94% to 7.42% in 2005 by not consolidating with HTIL. At the end of 2006, HWL still held a less-than-50% stake in HTIL (no change in owning percentage); however, its return on sales increased to 12.31%. By contrast, if HWL had consolidated with HTIL, group performance would have deteriorated in 2006 (see Exhibit 9). Although return on equity for HTIL performed better than that for HWL, it improved little for the group (from 7.79% to 7.88%). Therefore, it was reasonable for the firm not to increase its holding interest in HTIL in 2006 (see Table 2).

Table 1: 2005 Ratio Analysis

2005	HTIL	HWL	HTIL + HWL
Return on Equity	-0.76%	5.89%	2.74%
Return on Sales	-0.61%	7.42%	2.94%
Assets Turnover	0.410	0.3058	32.01%
Leverage	2.006306	1.354	1.46

Source: extracted from Exhibit 8 (in the Appendix)

Table 2: 2006 Ratio Analysis

2006	HTIL	HWL	HTIL + HWL
Return on Equity	9.46%	7.79%	7.88%
Return on Sales	4.72%	12.31%	11.14%
Assets Turnover	0.419	0.271	0.287
Leverage	3.439642	1.331719	1.44601984

Source: extracted from Exhibit 9 (in the Appendix)

Aside from financial reasons, the strategic cooperation between Orascom Telecom and HTIL aligned their procurement processes, meaning that they enjoyed synergies in IT and software procurement, network equipment, international roaming, and transmitting costs.[13] Furthermore, this synergy effect can be revealed from their operating areas. Orascom Telecom and Hutchison Telecom operated in 15 countries covering approximately two billion people and together served over 40 million mobile subscribers. Therefore, they could use each other's network systems to reduce their individual international roaming and transmitting costs.

[10] Orascom Telecom is a leading mobile telecommunications operator in emerging markets in the Middle East, Africa and South Asia. It was listed Cairo & Alexandria Stock Exchange and London Stock Exchange. For more information about Orascom Telecom Holding please visit: www.orascomtelecom.com.
[11] Please refer to HWL 2005 annual report p. 208.
[12] See the joint announcement document: Orascom Telecom Acquires Strategic Stake in Hutchison Telecom.
[13] Orascom Telecom has operations in Algeria, Egypt, Pakistan and Bangladesh. It has a total population under license of nearly 460 million with an average mobile telephony penetration of 11.5%.

HWL Increasing Shares of HTIL in 2007

According to its 2005 annual report, HWL marginally increased its holding interest in HTIL from 49.8% to 50.1% in 2005[14]. This small purchase of shares in HTIL meant that HWL was now required to prepare consolidated financial statements in order to fulfill HKAS 27. Thus, HTIL was no longer an associate but a subsidiary of HWL.

The main reason behind this move toward preparing consolidated statements was to improve HWL's profitability. After increasing its shareholding in HTIL, HWL could reduce its loss for 2005 from a loss of USD 4,487 million to a profit of USD 4,224 million (see Exhibit 10 in the Appendix) by disposing of its Indian telecommunication business. This disposal generated huge gains, which improved the return on equity and return on sales ratios from 9.46% and 4.72% in 2006, respectively, to 125% and 247%, respectively, in 2007 (see Tables 2 and 3).

Table 3: Ratio Analysis for 2007

2007	HTIL	HWL	HTIL + HWL
Return on Equity	125.20%	-11.46%	9.16%
Return on Sales	247.45%	-18.25%	15.03%
Assets Turnover	0.3584	0.265	0.2737
Leverage	0.4117	1.373566	1.228

Source: Extracted from Exhibit 10

After consolidation with HTIL in 2007, the return on sales ratio also increased from -18.25% to 15.03% (Table 3). On the contrary, without consolidation, HWL would have generated a negative return on equity of 11.46%, which would have induced discontent among shareholders. Thus, by consolidating the group generated a positive return on equity of 9.16%. In addition, it reduced HWL's financial leverage from 1.37 to 1.22, thereby improving the group's financial position in 2007 (see Exhibit 11 in the Appendix).

Return on equity and return on sales in 2007 were 125% and 247%, respectively. These ratios were significantly higher than those in 2006 (9.46% and 4.72%, respectively) because disposing of the Indian business to a third party generated a huge profit in 2007 (Tables 2 and 3 and Exhibit 10). After consolidation, HWL increased its return on equity and return on sales ratios from 7.79% and 12.23% in 2006 to 9.16% and 15.03% in 2007, respectively. This result not only turned a loss into a profit; it also increased HWL's shareholding in HTIL. From the point of view of investors, however, the 2007 annual report hid the profit on the disposal of this discontinued operation.

Spin-off of HTHK

In March 2009, HTIL distributed all share capital in HTHK. Each HTIL shareholder was allocated one share in HTHK for each one held in HTIL. In May 2008, HTIL agreed to spin off the Hong Kong and Macau telecommunication businesses listed on the SEHK. The CEO of HTHK resigned from HTIL, although other directors continued to operate HTIL's divisions in other Asian countries[15]. After listing HTHK, investors saw more stable profitability and cash flow with lower risk.

HTIL spun off the Hong Kong business and listed it on the SEHK because its return rate was too low in 2009. If the financial statements of HTHK had have been consolidated with those of HTIL, the return on sales for HTIL would have reduced from 39.94% to 27.53% and its return on equity would have reduced significantly from 48.28% to 29.6% (see Exhibit 3) as a result of the lower asset turnover of the Hong Kong business.

[14] Please refer to HWL 2005 Annual Report P.203.
[15] Source: iStockAnalyst.com: Hutchison Telecom: Successful Spin-Off and Listing of Hong Kong and Macau Operations on Hong Kong Stock Exchange.

Therefore, HWL used this method to maintain a high returns growth rate for HTIL. However, it also created its own investor base, provided access to new sources of capital, and incentivized management[16].

EARNINGS MANAGEMENT AND SHARE PERFORMANCE

Earnings Management

Earnings management is defined as the choice of accounting policies or other actions that affect earnings intentionally. This topic is an important research area as earnings management can undermine the credibility of financial statements which provide useful information for stakeholders in well-functioning capital markets. Most previous studies in the earnings management literature have focused on two types of general earnings management: 1) accruals management and 2) the manipulation of real economic activities. For discretionary accruals, firms can use provisions for credit losses, warranty costs, inventory values, and the timing and amounts of unusual items, whereas accruals earnings management may have the reverse effect. Another approach is to use real variables, although this may be costly and thus affect the firm's long-term interest. According to Graham et al. (2005), most respondents use real variables to manage the earnings.

Previous studies have explored the reasons behind decisions on earnings management, including compensation schemes (Healy, 1985; McNichols & Wilson, 1988; Sloan, 1995), debt covenants (DeFond & Jiambalvo, 1994; DeAngelo et al., 1994; Shores, 1995), investors' expectation meetings (Bartov, Givoly, & Hayn, 2002; Barton & Mercer, 2005), and better prices for IPOs (Hughes, 1986; Clarkson et al., 1992; Teoh, Welch, & Wong, 1998). Although earnings management can reduce blocked communication, thus reveal inside information (Stocken & Verrecchia, 2004). It can also result from opportunistic earnings management (Dechow, Sloan, & Sweeney, 1996; Hanna, 1999). Previous studies have also found that severe earnings management and a low level of earnings informativeness are characteristics of weak investor protection institutions (DeFond, Hung, & Trezevant, 2007; Leuz, Nanda, & Wysocki, 2003).

However, no study has thus far investigated how a firm can manage earnings using consolidation techniques; namely, increasing a holding in a subsidiary in order to consolidate with it or reducing a holding in order not to. The present study fills the gap in the literature by analyzing an Asian firm; namely, HWL. Because few firms use the consolidation technique, the author applies the case study method to explore earnings management. However, the author cannot use statistical methods to quantitatively assess the relationship between this technique and share performance.

HWL used different financial techniques - including accounting for consolidation - to improve its profitability in different periods. As shown in the analysis above, in 2004 it listed HTIL on the SEHK and NYSE to improve profit levels. This, in turn, increased its return on sales, return on equity, and asset turnover ratios. In 2005, HWL sold almost half of its shares in HTIL in order to improve profit by avoiding consolidation. Once again, this measure improved the same profitability ratios. In 2007, HWL purchased a 0.3% share in HTIL's interests, which turned a loss of $4.37 billion into a profit of $32 billion through consolidation and the disposal of investments in the Indian business. This also turned these three ratios from negative to positive.

In 2009, the performances of the Hong Kong and Macau telecommunication businesses deteriorated. In that year, they only generated USD 68 million to HTIL, which significantly and directly affected HTIL and indirectly affected HWL's profitability. Once again, the group used the accounting for consolidation technique to spin off the Hong Kong and Macau businesses (termed HTHK), thereby improving the profitability of both HTIL and HWL. The group has thus continually applied accounting for consolidation to manage earnings across the study period. In the HTIL's Share Performance after the Announcement of Earnings section, because this technique is difficult for normal investors without accounting knowledge to investigate, the author describes HWL's share performance and profitability across the study period.

[16] Source: Listing Document by Introduction in 2009 p.7.

HTIL's Share Performance after the Announcement of Earnings

Between 2004 and 2010, HTIL sold some of their businesses worldwide in order to improve profit levels. It also indirectly improved the profit of HWL in different years. For instance, in 2004 it disposed of all interest in Hutchison Global Communications Holdings Limited[17] (from 79% to 52.5%) through a placement to generate a gain on disposal of approximately USD 0.17 billion in the 2004 income statement[18]. Through this earnings management technique, the firm turned a loss for 2003 into a profit for 2004. In that same year, after the annual report had been released, the firm's share price rose rapidly - from \$0.13 per share to \$0.21 per share - by the end of 2005.

In 2005, HTIL purchased an owning interest in Partner Communication Company Limited ("Partner") from 42.9% to 52.2%. This purchase resulted in consolidation with Partner's financial statements, as it had become a subsidiary of HTIL. Because the acquisition payment to Partner was termed capital expenditure, it did not need to be accounted for in the income statement. However, as consolidation was required according to HKAS 27, Partner contributed a turnover of USD 850 million and a profit of USD 35 million to the group for the period from 20 April 2005 to 31 December 2005 (see Exhibit 12 in the Appendix). This increased profit from continuous operations from USD 192 million to 295 million. This method thus turned capital expenditure into recurring revenue, further increasing the share price of HTIL from \$0.25 per share in March 2006 (after the annual report had been announced) to \$0.34 per share at the end of 2006. Therefore, this share performance was clearly affected by the acquisition of Partner.

In 2006, HTIL used the same method to acquire another corporation and again turn capital expenditure into recurring revenue. During 2006, a subsidiary of HTIL in India; namely, Hutchison Essar Limited, acquired an owning interest in BPL Mobile Cellular Limited as well as a 100% stake in Essar Spacetel Private Limited[19], while Partner acquired the transmission business of Med-1[20] in July 2006. These three acquisitions contributed a total of USD 170 million in turnover to HTIL[21]. In October 2007, the company sold its entire interest in Hutchison Essar Limited and its subsidiaries to Vodafone, generating a gain of 9,061 million. Therefore, HTIL turned a loss from continuous operations of USD 405 million into a profit for the year of USD 8,712 million. In May 2008, HTIL spun off the Hong Kong and Macau telecommunication businesses and listed them on the SEHK in order to maintain a high returns growth rate of HWL.

The management of HTIL used different financial techniques (earning management) to improve HTIL profit in different years. These methods are difficult for investors without accounting knowledge to look through. It is expected that share performance after the announcement of good news increased during that year. Therefore, the author thus used the HTIL daily closing share price with adjusted cash/stock dividends and the split after announcement date of the annual report for the 2004-2010 period to calculate the average cumulative returns for good news (i.e., the mean current year's profit is higher than that in the previous year) and bad news (i.e., the mean current year's profit is below that in the previous year).

After the announcement of good news (Day 0), HTIL's share price continued to rise until day 240, at which point the average cumulative returns was 32.8% for that period (see Exhibit 13 in the Appendix). Following a bad news announcement, HTIL's share price decreased for 230 days, with an average cumulative

[17] Before disposal, at 31 December 2003, the Group owned 37% of Vanda Systems & Communications Holdings Limited ("Vanda"), which was then accounted for as an associated company. In March 2004, Vanda acquired 100% of the Group's fixed-line and data centre businesses, and was renamed as Hutchison Global Communications Holdings Limited ("HGCH"). The Group's stake in HGCH increased to 79% of the enlarged share capital of HGCH as a result of HGCH's acquisition of the fixed-line and data centre businesses. As of March 2004, HGCH was accounted for as a subsidiary company of the Group.

[18] Source: HTIL 2004 Annual Report P. 106 (Note 15).

[19] A company had a licence to operate areas in Madhya Pradesh, North East, Himachal Pradesh, Bihar, Orissa, Assam, and Jammu.

[20] Med-1 is a private company operating a fibre-optic network, a national communication infrastructure in Israel, and holds a licence to supply communication infrastructure services to Israeli companies.

[21] Source: 2006 Annual Report p.105.

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return of -2% (see Exhibit 14 in the Appendix). This result is weaker because the sample size of bad news is only a two-year period during the overall study period of 2004-2010 (Figure 1).

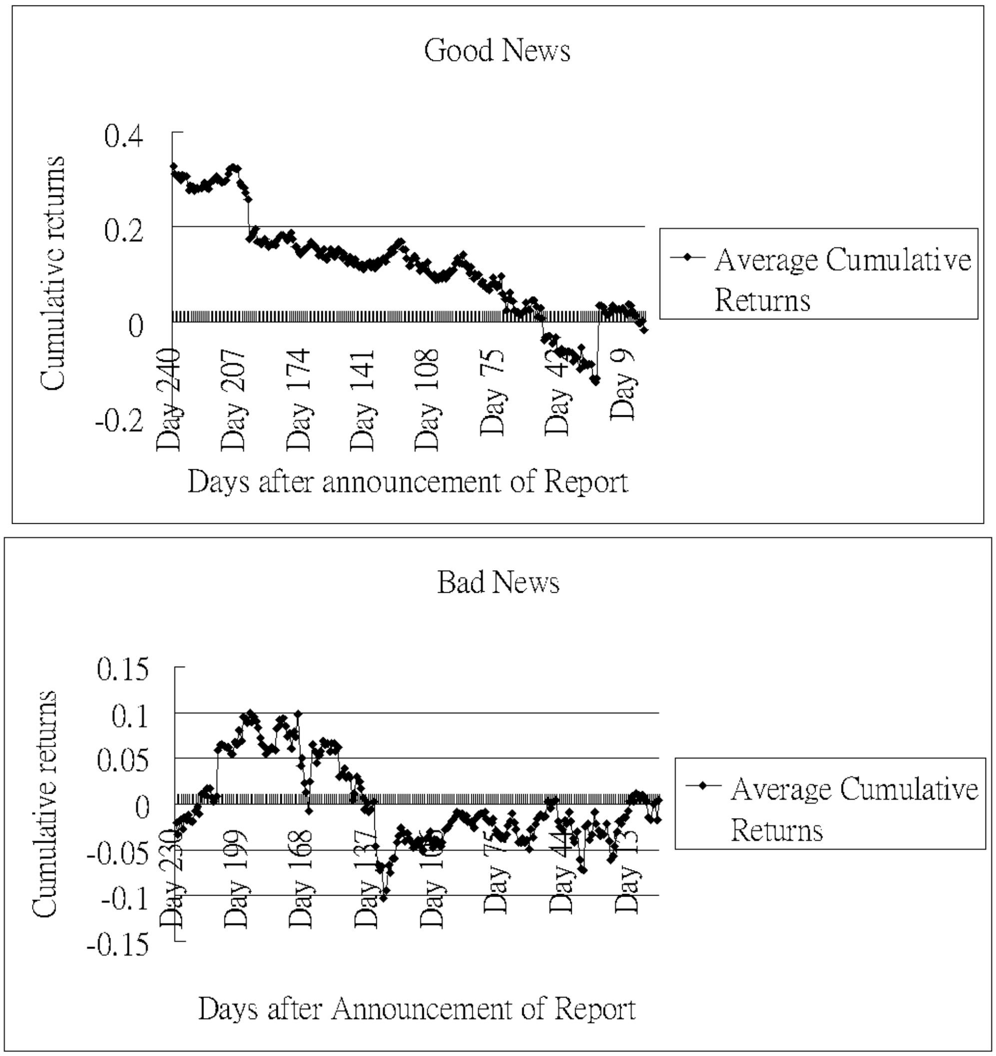

Figure 1: HTIL's Cumulative returns after announcements of good news & bad news

HWL's Share Performance after the Announcement of Earnings

As previously mentioned, Hutchison Whampoa Limited used a different accounting technique to boast a profit for the years 2004-2010. For instance, HWL listed HTIL in 2004 to improve return on sales and equity. HWL reduced its shares holding of HTIL in 2005 to below 50% to avoid consolidation with HTIL in order not to jeopardize HWL's profit in that year. HWL purchased only 0.3% shares of HTIL in 2007 to make its holding rise to above 50% so as to consolidate with HTIL's financial statements and share it's USD 9,062 million gain on disposal of Hutchison Essar Limited and its subsidiaries to Vodafone Group Plc. HWL shared better performance of HTIL in 2009 after the spin-off of Hutchison Telecommunication Hong Kong Holdings in 2009.

These financial and accounting techniques are very difficult for an investor to realize. Next, the same method to calculate the average cumulative share return after the announcement of good news for HWL is applied in order to test whether it shows a similar result to the share performance of HTIL described in the HTIL's Share Performance after the Announcement of Earnings section. After the announcement of good news following the release of the annual report, HWL's share price rose from day 1 to day 188, at which points its average cumulative return was 21.6%. This confirms that these accounting techniques are useful to boost HWL's share performance.

CONCLUSION

This paper analyzed three Hong Kong-listed corporations; namely, HWL, HTIL, and HTHK, over the period 2003-2010. HWL was listed in 2004 in order to improve its performance in 2004 and 2005. Thereafter, in 2007 HWL marginally increased its holding in HTIL in order to turn a loss into a positive profit. Furthermore, in 2009 HTIL spun off its Hong Kong and Macau telecommunication businesses and listed them on the SEHK in order to improve profitability. Finally, HWL privatized HTIL at USD 0.29 per share in 2010 in order to gain a large amount of remaining cash from HTIL. Although HTIL was listed on the SEHK, HTIL and HWL improved share performance through such earnings management techniques.

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APPENDIX

Exhibit 1: History of HWL for 1970 - 2010

Areas	Year	Various Businesses exploring event
Property	1971	Hutchison Properties Limited (HPL) is incorporated to concentrate on property development and related services.
Supermarkets	1973	The Group acquires PARKnSHOP supermarkets.
Retails	1981	A S Watson becomes a wholly owned subsidiary of Hutchison Whampoa Limited with 75 retail food and non-food outlets.
Telecommunication	1983	Hutchison Telephone Company Limited is granted a licence to operate an Advanced Mobile Phone Service (AMPS) cellular radio telephone network in Hong Kong.
Electricity	1985	HWL acquires a substantial interest in Hongkong Electric Holdings for HKD 2,900 million.
Natural Resources	1987	HWL expands overseas with the acquisition of a 43 per cent interest in Canada's Husky Oil.
Television Services	1990	Hutchvision Limited, a joint venture with Mr Li Ka-shing and family, is established to launch and operate a pan-Asian multi-channel satellite television service.
Radio Services	1990	Metro Broadcast is awarded a license to operate Hong Kong's second commercial radio station.
Railways	1993	The Group, in conjunction with Cheung Kong (Holdings) and other Chinese partners, signs an agreement in June to build the 'East' section of the express-way between Shenzhen and Shantou.
Hotel	1995	The Harbour Plaza Hotel, with 415 rooms and 101 serviced apartments, opens for business.
Financial Sevices	1995	HWL, in partnership with OTB Card Company Limited, a subsidiary of Dao Heng Bank Group Limited, and Visa International, launches the ComPass Card.
Agricultural	1998	In June, Hutchison Whampoa (China) Limited has teamed up with two Mainland companies to develop a large scale, high-tech rice farm in Qiqihaer, Heilongjiang.
Wines	1998	In June, Watson’s opens Hong Kong’s biggest wine cellar
Network		On 16 December, Hutchison Whampoa and Cheung Kong (Holdings) together with other investors, establishes TOM.COM LIMITED.

Exhibit 2: HTIL History of Globalization

Region	Worldwide exploring event
Hutchison India	Hutchison Essar Limited started operations under the brand name "Orange" in Mumbai.
Hutchison Orange Israel	Even after selling the Orange Brand to France Telecom, they used Orange brand in Israel
Hutchison Telecom Sri Lanka	The company's Sri Lankan operation, commonly known as Hutch, is the country's youngest and smallest operator, but is growing fast.
3 Indonesia	In July 2005, Hutchison Telecom acquired a 60% equity stake in PT Hutchison CP Telecommunications.
Vietnamobile	In February 2005, Hutchison Telecom was granted an investment licence by the government for the project.
Hutch Thailand	In 2000, Hutchison Telecom and CAT Telecom Public Company Limited entered into a joint venture to provide exclusive marketing services for CAT Telecom’s CDMA mobile telecommunications in the Bangkok.

Exhibit 3: 2009 HKHTH and HTIL Balance Sheets

2009	HTIL	HKHTH	HTIL + HTHK	HTIL	HTHK	HTIL + HTHK
ASSETS						
Current assets						
Cash and cash equivalents	540.23	34.45	574.68	17.97%	1.51%	10.87%
Restricted cash	176.35	0.00	176.35	5.87%		3.33%
Trade and other receivables	282.65	139.46	422.11	9.40%	6.11%	7.98%
Stocks	5.66	20.57	26.22	0.19%	0.90%	0.50%
Derivative financial assets	—					
Available-for-sale financial assets	271.72		271.72	9.04%		5.14%
	560.03		560.03	18.63%		10.59%
Total current assets	**1,276.61**	**194.47**	**1,471.08**	**42.47%**	**8.52%**	**27.82%**
Assets held for sale	—					
Non-current assets						
Fixed assets	1,103.98	1,212.85	2,316.84	36.72%	53.15%	43.81%
Goodwill	209.77	578.79	788.56	6.98%	25.36%	14.91%
Other intangible assets	128.66	43.19	171.85	4.28%	1.89%	3.25%
Other non-current assets	287.15	170.69	457.84	9.55%	7.48%	8.66%
Deferred tax assets	0.00	47.30	47.30	0.00%	2.07%	0.89%
Interests in associates	0.00	0.00				
Interests in jointly-controlled entities	0.00	34.70	34.70		1.52%	0.66%
Total non-current assets	**1,729.56**	**2,087.53**	**3,817.10**	**57.53%**	**91.48%**	**72.18%**
Total assets	**3,006.17**	**2,282.01**	**5,288.17**	**100.00%**	**100.00%**	**100.00%**
LIABILITIES						
Current liabilities						
Trade and other payables	803.60	426.35	1,229.95	26.73%	18.68%	23.26%
Borrowings	60.41	0.00	60.41	2.01%	0.00%	1.14%
Current income tax liabilities	—	0.00				
Derivative financial liabilities	0.64	0.00	0.64	0.02%	0.00%	0.01%
	0.00	0.00				
Total current liabilities	**864.65**	**0.00**	**864.65**	**28.76%**		**16.35%**
Non-current liabilities						
Borrowings	233.55	560.15	793.70	7.77%	24.55%	15.01%
Deferred tax liabilities	—	0.00				
Other non-current liabilities	368.89	76.48	445.37	12.27%	3.35%	8.42%
Total non-current liabilities	602.44	0.00	602.44	20.04%		11.39%
Total liabilities	**1,467.10**	**1,080.98**	**2,548.07**	**48.80%**	**47.37%**	**48.18%**
EQUITY						
Capital and reserves attributable to equity holders of the Company						
Share capital	154.76	154.76	309.51	5.15%	6.78%	5.85%
Reserves	1,384.32	1,116.84	2,501.16	46.05%	48.94%	47.30%
	1,539.07	0.00	1,539.07	51.20%	0.00%	29.10%
Minority interest	—	-70.57			-3.09%	0.00%
Total equity	1,539.07	1,201.03	2,740.10	51.20%	52.63%	51.82%
Total equity and liabilities	**3,006.17**	**2,282.01**	**5,288.17**	**100.00%**	**100.00%**	**100.00%**

Exhibit 4: Corporate Structure

CORPORATE STRUCTURE

The following diagram includes all of the Group's major operating companies immediately upon the Listing:

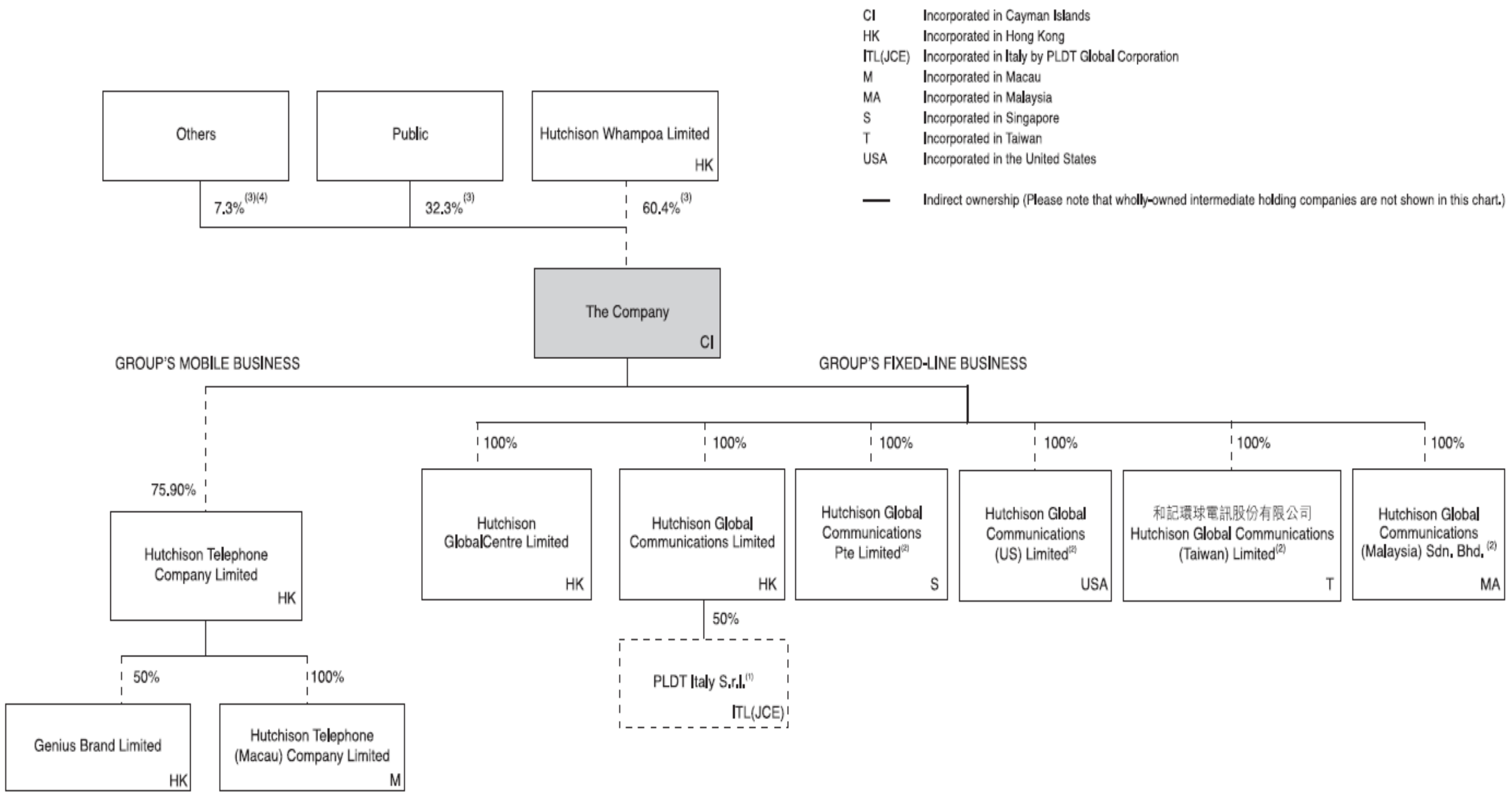

Exhibit 5: 2004 HTIL and HWL Income Statements

2004	**HTIL**	**HWL + 70% HTIL**	**HWL + 100% HTIL**	**HTIL**	**HWL + 70% HTIL**	**HWL + 100% HTIL**
Turnover	1,923	17,300	17,300	100.00%	100.00%	100.00%
Cost of goods sold	-180	-6,685	-6,685	-9.36%	-38.64%	-38.64%
Staff costs	-205	-2,767	-2,767	-10.68%	-15.99%	-15.99%
Prepaid 3G telecommunication customer acquisition		-1,083	-1,083		-6.26%	-6.26%
Depreciation and amortisation	-393	-3,890	-3,890	-20.45%	-22.48%	-22.48%
Other operating expenses	-1,169	-4,972	-4,972	-60.82%	-28.74%	-28.74%
Change in value of properties		674	674		3.90%	3.90%
Profit on disposal of investments and others, net	167	2,465	1,938	8.69%	14.25%	11.20%
Operating Profit	142	1,044	517	7.39%	6.04%	2.99%
Share or profit less loss of associated companies	97	1,134	1,134	5.03%	6.55%	6.55%
Share of profits less losses of jointly controlled entities		311	311		1.80%	1.80%
		2,489	1,962		14.39%	11.34%
Net Interest and other finance costs	-135	-1,634	-1,634	-7.05%	-9.44%	-9.44%
Profit before taxation	103	855	328	5.38%	4.94%	1.90%
Taxation	-63	391	391	-3.27%	2.26%	2.26%
Profit for the year from continuing operations	41	1,246	719	2.11%	7.20%	4.16%
Minority interests		827	839		4.78%	4.85%
Profit attributable to shareholders		2,073	1,558		11.98%	9.01%
Profit for the year	**41**	**1,246**	**719**	2.11%	7.20%	4.16%

Exhibit 6: 2004 HTIL and HWL Balance Sheets

2004 **Non-current Assets**	**HWL +** **70% HTIL**	**HTIL**	**HWL +** **100% HTIL**	**HWL +** **70% HTIL**	**HTIL**	**HWL +** **100% HTIL**
Fixed assets	27,113	2,600	27,113	32.24%	49.68%	32.63%
Telecommunications licenses	13,128		13,128	15.61%	0.00%	15.80%
Telecommunications 3G	877		877	1.04%	0.00%	1.06%
Goodwill	1,316	789	1,316	1.57%	15.08%	1.58%
Associated companies	7,112	237	7,112	8.46%	4.53%	8.56%
Interests in joint ventures	4,622		4,622	5.50%	0.00%	5.56%
Deferred tax assets	2,492	108	2,492	2.96%	2.07%	3.00%
Other non-current assets	1,058	686	1,058	1.26%	13.11%	1.27%
Liquid funds and other listed investments	8,548		8,548	10.17%	0.00%	10.29%
Total non-current assets	**66,266**	**4,421**	**66,266**	**78.80%**	**84.47%**	**79.74%**
Cash and cash equivalent	9,486	270	8,496	11.28%	5.16%	10.22%
Other current assets	8,340	542	8,340	9.92%	10.37%	10.04%
Total Current Assets	**17,826**	**813**	**16,836**	**21.20%**	**15.53%**	**20.26%**
Total Assets	**84,092**	**5,234**	**83,102**	**100.00%**	**100.00%**	**100.00%**
Current liabilities	11,379	2,660	11,379	24.84%	80.05%	24.84%
Non-current liabilities						
Long term liabilities	32,748	460	32,748	71.50%	13.85%	71.50%
Deferred tax liabilities	1,529	19	1,529	3.34%	0.57%	3.34%
Pension obligations	147		147	0.32%	0.00%	0.32%
Total non-current liabilities	34,424	663	34,424	75.16%	19.95%	75.16%
Total Liabilities	**45,802**	**3,323**	**45,802**	**100.00%**	**100.00%**	**100.00%**
CAPITAL AND RESERVES	33,527	1,836	33,000	73.20%	55.26%	72.05%

Part B

Return on Equity	2.13%	6.18%	4.72%
Return on sales	2.11%	7.20%	4.16%
Assets Turnover	0.367387	0.208	0.2057
Leverage	1.739136	1.387939597	1.366

Exhibit 7: 2005 HTIL and HWL Balance Sheets

2005	HTIL	HWL	HTIL + HWL	HTIL	HWL	HTIL + HWL
ASSETS						
Current assets						
Cash and cash equivalents	313	6,390	5,405	4.09%	8.33%	6.50%
Restricted cash	0	0	0	0.00%		
Trade and other receivables	1,287	4,629	5,915	16.80%	6.03%	7.12%
Stocks	88	2,614	2,702	1.15%	3.41%	3.25%
Derivative financial assets	1	0	1	0.02%		
Available-for-sale financial assets	—	0				
	1,376	0	1,376			1.66%
Total current assets	**1,689**	**13,633**	**14,024**	**22.06%**	**17.77%**	**16.87%**
Assets held for sale	—					
Non-current assets						
Fixed assets	3,161	15,974	19,135	41.27%	20.82%	23.02%
Goodwill	1,245	2,308	3,553	16.26%	3.01%	4.27%
Other intangible assets	1,180	29,046	30,226	15.41%	37.85%	36.36%
Other non-current assets	266	569	835	3.47%	0.74%	1.00%
Deferred tax assets	118	2,021	2,139	1.54%	2.63%	2.57%
Interests in associates	0.25	8,398	7,129	0.00%	10.94%	8.58%
Interests in jointly-controlled entities	—	4,792	4,792		6.24%	5.76%
Total non-current assets	**5,970**	**63,107**	**67,809**	77.94%	82.23%	81.57%
Total assets	**7,660**	**76,740**	**83,131**	100.00%	100.00%	100.00%
LIABILITIES						
Current liabilities						
Trade and other payables	1,354	7,310	8,664	26.49%	16.81%	**17.83%**
Borrowings	988	3,346	4,334	19.34%	7.69%	**8.92%**
Current income tax liabilities	16	267	284	0.33%	0.61%	**0.58%**
Derivative financial liabilities	15		15	0.29%	0.00%	**0.03%**
	0					
Total current liabilities	**2,374**	**10,923**	**13,297**	**46.45%**	**25.12%**	**27.36%**
Non-current liabilities						
Borrowings	2,442	30,705	33,147	47.78%	70.60%	68.20%
Deferred tax liabilities	124	1,767	1,891	2.42%	4.06%	3.89%
Other non-current liabilities	171	96	268	3.35%	0.22%	0.55%
Total non-current liabilities	2,738	32,569	35,306	53.55%	74.88%	72.64%
Total liabilities	**5,112**	**43,492**	**48,603**	**100.00%**	**100.00%**	**100.00%**
EQUITY						
Capital and reserves attributable to equity holders of the Company						
Share capital	153	137	290	2.99%	0.32%	0.67%
Reserves	1,926	31,168	32,143	37.67%	71.66%	73.91%
	2,078	31,305	32,433	40.66%	71.98%	74.57%
Minority interest	469	1,295	1,417	9.18%	2.98%	3.26%
Total equity	2,548	32,600	33,850	49.84%	74.96%	77.83%
Total equity and liabilities	**7,660**	**76,092**	**82,453**	**149.84%**	**174.96%**	**189.58%**
Net current assets/(liabilities)	685	-2,710	-2,025	13.40%	-6.23%	-4.66%
Total assets less current liabilities	**5,285**	**65,169**	**70,454**	**103.40%**	**149.84%**	**161.99%**

Exhibit 8: 2005 HTIL and HWL Income Statements

2005	**HTIL**	**HWL**	**HTIL+HWL**	**HTIL**	**HWL**	**HTIL+HWL**
Turnover	3,138	23,468	26,607	100.00%	100.00%	100.00%
Cost of goods sold	-301	-8,072	-8,374	-9.59%	-34.40%	-31.47%
Staff costs	-299	-3,307	-3,606	-9.53%	-14.09%	-13.55%
Telecommunications prepaid customer acquisition costs		-1,537	-1,537	0.00%	-6.55%	-5.77%
Depreciation and amortisation	-563	-4,592	-5,156	-17.95%	-19.57%	-19.38%
Other operating expenses	-1,709	-7,742	-9,451	-54.46%	-32.99%	-35.52%
Change in fair value of investment properties		474	474		2.02%	1.78%
Profit on disposal of investments and others, net	9	3,228	2,287		13.76%	8.59%
Operating Profit	266	1,920	1,235	8.47%	8.18%	4.64%
Share of results of associated companies	11	1,037	1,058	0.35%		
Share of profits less losses of jointly controlled entities		505	505			
Net Interest and other finance costs	-206	-1,980	-2,186	-6.57%	-8.44%	-8.22%
Loss before taxation	-80	1,482	461	-2.54%	6.31%	1.73%
Taxation	-56	261	205	-1.78%	1.11%	0.77%
Loss on disposal of discontinued operations	-43		-43	-1.38%		
Loss for the year	-19	1,742	781	-0.61%	7.42%	2.94%
Loss attributable to minority interests		101	107			
Profit attributable to shareholders of the Company		1,844	889			
Profit for the year	**-19**	**1,742**	**781**	**-0.61%**	**7.42%**	**2.94%**

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Exhibit 9: 2006 HTIL and HWL Income Statements

2006	**HTIL**	**HWL**	**HTIL+HWL**	**HTIL**	**HWL**	**HTIL+HWL**
Turnover	4,290	23,626	27,916	100.00%	100.00%	100.00%
Cost of goods sold	-296	-8,626	-8,923	-6.91%	-36.51%	-31.96%
Staff costs	-343	-3,307	-3,650	-7.99%	-14.00%	-13.07%
3 Group telecommunications expensed customer acquisition costs		-706	-706		-2.99%	-2.53%
Depreciation and amortisation	-652	-4,253	-4,906	-15.21%	-18.00%	-17.57%
Other operating expenses	-2,356	-6,537	-8,893	-54.92%	-27.67%	-31.86%
Change in fair value of investment properties		365	365		1.55%	1.31%
Impairment charge for Thailand segment						
Profit on disposal of investments and others, net	643	2,994	3,636	14.98%	12.67%	13.03%
Associated companies before profit on disposal of investments and others						
share of profit on Jointly controlled entities		395	395		6.24%	1.42%
share of profit on associated		1,475	1,475			5.28%
Associated company's profit on disposal of an investment and others						
Operating profit	648	1,870	2,518	15.11%	7.91%	9.02%
Interest Income	16		16	0.36%		0.06%
Interest and other finance costs	-355	-2,134	-2,489	-8.28%	-9.03%	-8.92%
Loss/ Profit before taxation	309	3,291	3,600	7.20%	13.93%	12.89%
Taxation	-106	383	276	-2.47%	1.62%	0.99%
Loss/ Profit for the year	203	2,908	3,111	4.72%	12.31%	11.14%
Profit on disposal of discontinued operations						
Loss/ Profit for the year						
Loss attributable to minority interests	177	-334	-157	4.12%		-0.56%
Profit attributable to shareholders of the Company	26	2,575	2,600	0.60%		9.31%
Profit for the year	**203**	**2,908**	**3,111**	4.72%	12.31%	11.14%

Exhibit 10: 2007 HTIL and HWL Income Statements

2007	HTIL	HWL	HTIL+HWL	HTIL	HWL	HTIL+HWL
Turnover	3,521	24,593	28,114	100.00%	100.00%	100.00%
Cost of goods sold	-351	-9,158	-9,509	-9.97%	-37.24%	-33.82%
Staff costs	-353	-3,416	-3,769	-10.04%	-13.89%	-13.41%
3 Group telecommunications expensed customer acquisition costs	0	-737	-737	0.00%	-3.00%	-2.62%
Depreciation and amortisation	-567	-4,429	-4,996	-16.11%	-18.01%	-17.77%
Other operating expenses	-1,844	-5,412	-7,256	-52.37%	-22.01%	-25.81%
Change in fair value of investment properties	0	256	256		1.04%	0.91%
Impairment charge for Thailand segment	-495	495		-14.07%	2.01%	0.00%
Profit on disposal of investments and others, net	1	-1,438	-1,437	0.03%	-5.85%	-5.11%
Associated companies before profit on disposal of investments		1,543	1,543		6.27%	5.49%
Jointly controlled entities		429	429		1.74%	1.53%
Associated company's profit on disposal of an investment and others		4,604	4,604		18.72%	16.38%
Operating profit	-89	7,330	7,241	-2.53%	29.81%	25.76%
Interest and other finance costs	-41	-2,408	-2,449	-1.18%	-9.79%	-8.71%
Loss/ Profit before taxation	-130	4,923	4,792	-3.71%	20.02%	17.05%
Taxation	-71	-497	-568	-2.02%	-2.02%	-2.02%
Loss/ Profit for the year	-201	4,426	4,224	-5.72%	18.00%	15.03%
Profit on disposal of discontinued operations	8,913	-8,913		253.17%	-36.24%	
Loss/ Profit for the year	**8,712**	**-4,487**	**4,224**	247.45%	-18.25%	15.03%
Profit for the year	**8,712**	**-4,487**	**4,224**	247.45%	-18.25%	15.03%

Exhibit 11: 2007 HTIL and HWL Balance Sheets

2007	**HTIL**	**HWL + HTIL**	**HWL**	**HTIL**	**HWL + HTIL**	**HWL**
ASSETS						
Current assets						
Cash and cash equivalents	4,706	14,307	9,601	47.91%	13.93%	10.33%
Restricted cash	—					
Trade and other receivables	604	7,117	6,513	6.15%	6.93%	7.01%
Stocks	66	2,699	2,633	0.67%	2.63%	2.83%
Derivative financial assets	3		-3	0.03%	0.00%	0.00%
Available-for-sale financial assets	—					
	674		-674	6.86%	0.00%	-0.73%
Total current assets	**5,380**	**24,123**	18,744	54.76%	23.48%	20.18%
Assets held for sale	—					
Non-current assets						
Fixed assets	2,179	23,309	21,130	22.18%	22.69%	22.74%
Goodwill	780	4,051	3,271	7.94%	3.94%	3.52%
Other intangible assets	1,005	33,511	32,506	10.23%	32.62%	34.99%
Other non-current assets	431	653	222	4.39%	0.64%	0.24%
Deferred tax assets	48	2,265	2,216	0.49%	2.20%	2.39%
Interests in associates		9,710	9,710	0.00%	9.45%	10.45%
Interests in jointly-controlled entities		5,106	5,106	0.00%	4.97%	5.50%
Total non-current assets	**4,443**	**78,605**	74,161	45.24%	76.52%	79.82%
Total assets	**9,823**	**102,728**	**92,905**	**100.00%**	**100.00%**	**100.00%**
LIABILITIES						
Current liabilities						
Trade and other payables	1,016	11,572	10,556	35.46%	20.43%	19.63%
Borrowings	653	6,460	5,806	22.81%	11.41%	10.80%
Current income tax liabilities	14	300	286	0.50%	0.53%	0.53%
Derivative financial liabilities	15		-15	0.53%	0.00%	-0.03%
Total current liabilities	**1,699**	**18,332**	**16,633**	**59.29%**	**32.37%**	**30.94%**
Non-current liabilities						
Borrowings	763	33,430	32,667	26.64%	59.03%	60.76%
Deferred tax liabilities	75	2,308	2,233	2.62%	4.08%	4.15%
Other non-current liabilities	328	2,558	2,231	11.45%	4.52%	4.15%
Total non-current liabilities	1,166	38,297	37,131	40.71%	67.63%	69.06%
Total liabilities	**2,865**	**56,628**	**53,764**	100.00%	100.00%	100.00%
EQUITY						
Capital and reserves attributable to equity holders of the Company						
Share capital	154	137	-17	5.36%	0.24%	-0.03%
Reserves	6,438	39,711	33,272	224.75%	70.12%	61.89%
Minority interest	367	6,252	5,886	12.80%	11.04%	10.95%
Total equity	6,958	46,100	39,142	242.90%	81.41%	72.80%
Total equity and liabilities	**9,823**	**102,728**	**92,905**	**342.90%**	**181.41%**	**172.80%**
Net current assets/(liabilities)	3,681	5,792	2,111	128.50%	10.23%	3.93%
Total assets less current liabilities	**8,124**	**84,397**	**76,272**	**283.61%**	**149.04%**	**141.87%**

Exhibit 12: 2004 - 2009 HTIL comparative Income Statements

	2004	2005	2006	2007	2008	2009
Continuing operations:						
Turnover	1,908	3,131	2,304	2,622	232	239
Cost of goods sold	-176	-300	-278	-343		
Staff costs	-204	-298	-244	-295	-50	-44
Depreciation and amortisation	-401	-561	-489	-543	-87	-91
Other operating expenses	-1,146	-1,704	-1,116	-1,309	-392	-424
Impairment charge for Thailand segment				-495		
Profit on disposal of investments and others, net	211	9	6	1	192	54
Operating loss	192	277	182	-362	-104	-266
Interest income	3	8	8	208	115	2
Interest and other finance costs	-134	-215	-212	-172	-94	-84
Loss before taxation	62	82	-22	-326	-83	-348
Taxation	-24	-56	-84	-25	-10	-4
Loss for the year from continuing operations	38	26	-106	-350	-94	-352
Discontinued operations:						
Profit for the year from discontinued operations	**-7**	**-45**	**308**	**9,062**	**308**	**1,095**
Profit for the year	**31**	**-19**	**203**	**8,712**	**214**	**743**
Attributable to:						
Equity holders of the Company:						
– continuing operations	3	-53	-153	-404	-36	-333
– discontinued operations	-7	-45	179	9,001	182	**968**
Minority interest:						
– continuing operations	35	79	47	54	-57	-19
– discontinued operations		0	129	61	126	127
Dividends	0	0	0	4,143	4,332	1,315
Loss per share from continuing operations attributable to equity holders of the Company						
– basic	HK$0.01	(HK$0.01)	(HK$0.03)	(HK$0.08)	(HK$0.01)	(HK$0.07)
– diluted	HK$0.01	(HK$0.01)	(HK$0.03)	(HK$0.08)	(HK$0.01)	(HK$0.07)

Exhibit 13

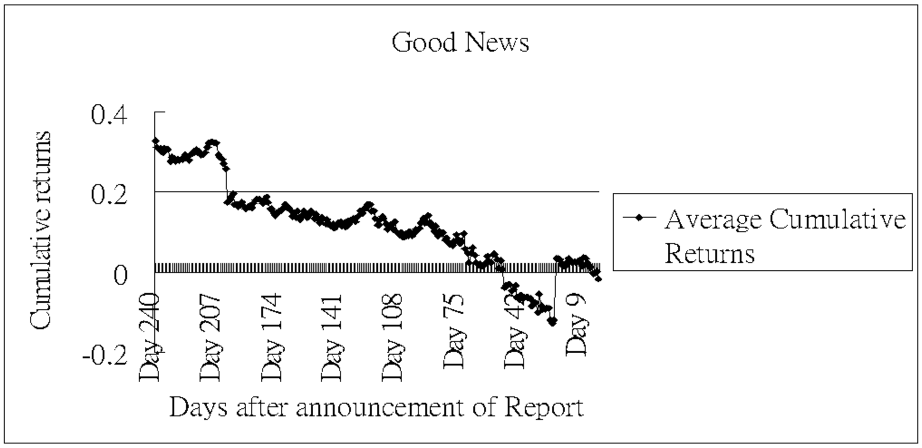
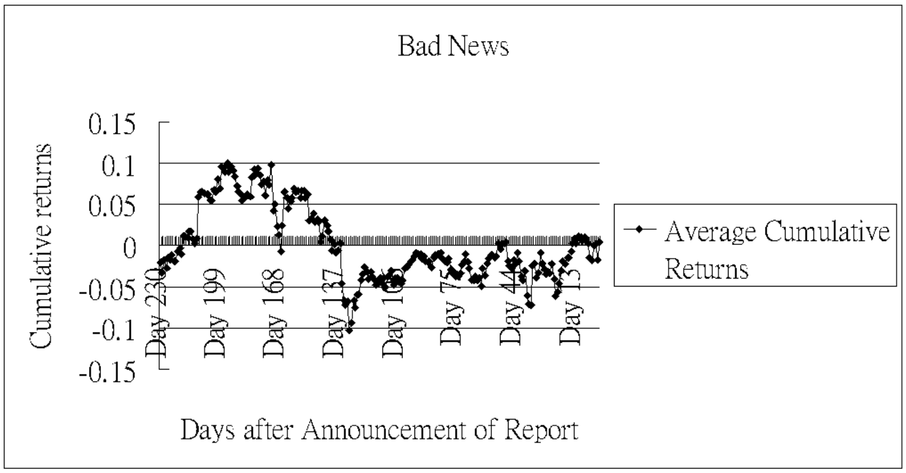


Exhibit 14



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