Information for US Investors

The Group's consolidated financial statements have been prepared in accordance with Hong Kong GAAP which differs in some respects to US GAAP. The effect on net (loss) income attributable to shareholders and shareholders' (deficits) funds of significant differences between Hong Kong GAAP and US GAAP is as follows:

		2003 HK$ millions	**2004 HK$ millions**	**2004 US$ millions**
Net (loss) income attributable to shareholders under Hong Kong GAAP		(214)	**72**	**9**
Adjustments:				
Revenue recognition	(a)	(4)	**12**	**2**
Customer acquisition costs	(b)	(226)	**(129)**	**(16)**
Capitalisation of interest expense	(c)	(11)	**(7)**	**(1)**
Interest accreted on spectrum licences	(d)	(75)	**(144)**	**(18)**
Reversal of licence period cost	(d)	24	**91**	**12**
Amortisation of spectrum licences	(d)	(71)	**(86)**	**(11)**
Business combinations	(e)	(2)	**(322)**	**(41)**
Reversal of amortisation of goodwill	(f)	79	**–**	**–**
Sale and leaseback transaction	(g)	9	**12**	**2**
Deferral of financing fees	(h)	(19)	**(21)**	**(3)**
Derivatives	(i)	(30)	**26**	**3**
Termination benefit	(j)	–	**20**	**3**
Onerous contracts	(k)	–	**69**	**9**
Deferred taxes	(l)	11	**(27)**	**(4)**
Minority interest		(5)	**79**	**10**
Capitalisation of loans net of related interest	(m)	176	**108**	**14**
Net loss under US GAAP		(358)	**(247)**	**(30)**
Shareholders' (deficits) funds under Hong Kong GAAP		(6,375)	**14,287**	**1,832**
Adjustments:				
Revenue recognition	(a)	(19)	**(7)**	**(1)**
Customer acquisition costs	(b)	(235)	**(364)**	**(47)**
Capitalisation of interest expense	(c)	105	**98**	**13**
Intangible assets-licences	(d)	1,054	**971**	**125**
Liability for licences	(d)	(1,265)	**(1,329)**	**(171)**
Business combinations	(e)	3,372	**3,347**	**429**
Goodwill reclassified to intangible assets	(e)	(3,543)	**(3,838)**	**(492)**
Impairment-goodwill	(f)	(719)	**(719)**	**(92)**
Sale and leaseback transaction	(g)	(72)	**(60)**	**(8)**
Restricted investments	(g)	2,440	**2,329**	**299**
Capital lease obligations	(g)	(2,440)	**(2,329)**	**(299)**
Deferral of financing fees	(h)	21	**–**	**–**
Derivatives	(i)	(45)	**(18)**	**(2)**
Termination benefit	(j)	–	**20**	**3**
Onerous contracts	(k)	–	**69**	**9**
Deferred taxes	(l)	(2)	**(33)**	**(4)**
Minority interest		(7)	**71**	**9**
Capitalisation of loans net of related interest	(m)	20,869	**–**	**–**
Shareholders' equity under US GAAP		13,139	**12,495**	**1,603**
Exchange translation adjustment	(n)	(29)	**(39)**	**(5)**

The increases or decreases noted above refer to the following differences between Hong Kong GAAP and US GAAP:

(a) Revenue Recognition

Under Hong Kong GAAP, revenues from sales of handsets are recognised when the handsets are delivered to dealers or to customers on dealer or corporate and retail sales, respectively. When customer acquisition costs are capitalised, the Group does not recognise any revenue relating to the sale of handsets. Proceeds from the sale of these handsets are netted against the direct costs of acquiring the customers. Under US GAAP, when the sales of handsets do not constitute a separate earnings process, the revenue in excess of cost is recorded as deferred revenue and recognised in income over the expected customer relationship period.

Under Hong Kong GAAP, connection and installation fees are recognised when the installation or connection takes place. Under US GAAP, revenues from connection and installation fees and any other up-front fees are deferred and recognised over the expected customer relationship period.

(b) Customer Acquisition Costs

Under Hong Kong GAAP, as described in Note 3J to the accounts, certain telecommunications customer acquisition costs, net of related revenue, are capitalised and amortised over the minimum enforceable contractual period. In the event that a customer ends its relationship before the costs have been fully amortised, the unamortised customer acquisition costs are written off.

Under US GAAP, direct incremental customer acquisition costs are deferred and amortised over the expected customer relationship period to the extent of deferred revenue with any excess costs expensed as incurred.

(c) Capitalisation of Interest Expense

For Hong Kong GAAP, as described in Note 3N to the accounts, interest costs incurred prior to the date the related asset is available for use are capitalised as construction in progress for borrowings identified as being related to the acquisition of the assets.

Under US GAAP, the interest cost incurred prior to the asset being ready for its intended use that could have been avoided if the expenditures for the fixed asset had not been made are capitalised as construction in progress.

(d) Telecommunication Spectrum Licences

Under Hong Kong GAAP, licence fee payments prior to commercial launch of services are recorded at cost and included in other non-current assets and amortised from the date of first commercial launch over the remaining licence period. Upfront payments and fixed periodic payments made subsequent to the commercial launch of services are recognised in the profit and loss account on a straight-line basis over the period of the related licence. Variable periodic payments are recognised in the profit and loss account as incurred. As described in Notes 3J and 3M to the accounts, licences are evaluated for impairment when an event occurs that might affect its value.

Under US GAAP, licence fee payments, the discounted value of the fixed annual fees to be paid over the licence period, and certain other direct costs incurred prior to the date the asset is ready for its intended use are capitalised. Capitalised licence fees are amortised from the date the asset is ready for its intended use until the expiration of the licence. Interest is accreted on the fixed annual fees and charged to interest expense. Variable licence fees are recognised as period costs. The impairment review of licences first compares the future undiscounted cash flows expected to be generated from continual use and ultimate disposition of the licences with their book value. If these cash flows are not sufficient, an impairment charge is recorded to reduce the licence carrying cost to the estimated discounted future cash flows. The adjustment made to cost and accumulated amortisation of licence are HK$1,091 million and HK$120 million, respectively (2003 – HK$1,084 million and HK$30 million, respectively).

(e) Business Combinations

Under Hong Kong GAAP, the excess of the cost of acquisition over the fair value of the Group's share of net assets of the acquired subsidiary company, associated company and joint venture entity is recognised as goodwill. Up to 31 December 2003, goodwill was capitalised and amortised over its estimated useful economic life, a period of no longer than 20 years. From 1 January 2004, with the early adoption of HKFRS 3, goodwill is not subject to amortisation but is tested for impairment annually, as well as when there are indicators of impairment. An identifiable intangible asset acquired in a business combination have been limited to those assets that can be identified and controlled and for which future economic benefits attributable to the asset will probably flow to the entity. In the event the criteria cannot be met, intangibles are not recognised and the corresponding amount will be classified as part of goodwill.

Under US GAAP, the cost of the acquisition is allocated to fair value of acquired assets and liabilities, including separately identifiable intangibles if it satisfies either the "contractual-legal" or "separability" criterion. Any excess cost of the acquisition is recognised as goodwill. Intangibles are amortised over their estimated useful lives. The adjustments made to cost and accumulated amortization of intangible assets are HK$5,017 million and HK$1,739 million, respectively (2003 – HK$5,017 million and HK$1,416 million respectively).

(f) Impairment of Goodwill

Under Hong Kong GAAP, the Group will perform an impairment review on an annual basis, or when an event that might affect asset carrying value has occurred, to ensure its assets, including goodwill, are carried at no more than their recoverable amount. The recoverable amount of an asset is the higher of its net selling price and its value in use, based on present value calculations. The value in use test is performed for each cash-generating unit identified. A cash-generating unit is the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows from other assets or groups of assets. The cash generating unit can be a level or levels above the reporting unit, the reporting unit, or a level or levels below the reporting unit.

Under US GAAP, the Group performs an annual impairment test for goodwill based on the fair value of the operating segment or one reporting level below the operating segment. The fair value of the reporting unit is allocated to its assets and liabilities, including any unrecognised intangible assets. The remaining fair value for the reporting unit is the implied fair value of the goodwill. This implied fair value of goodwill is compared to its carrying amount on an annual basis to determine if there is a potential impairment. If the implied fair value of the goodwill is less than its carrying value, an impairment loss is recorded to the extent that the implied fair value is less than its carrying value.

(g) Sale and leaseback transaction

In 1998, the Group entered into a sale and leaseback transaction for certain of its mobile telecommunication assets. Under Hong Kong GAAP, this transaction was accounted for as a defeased lease and, thus, the assets subject to the sale and leaseback arrangement have been accounted for as a financing lease and the related financial assets transferred to a third party in exchange for payment of liabilities have been removed from the balance sheet along with the related liabilities.

Under US GAAP, the mobile telecommunication assets and related depreciation expense subject to this arrangement are recorded at their historical cost. A portion of the underlying assets has been impaired during the year ended 31 December 2004. Accordingly, the impairment charge under US GAAP has been adjusted for the difference between the cost basis under Hong Kong GAAP and US GAAP. Further, the related financial assets transferred to a third party under the defeased lease agreements have not met all of the criteria for treatment of a sale under SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", thus, the financial assets and related liabilities are included in the Group's US GAAP balance sheet.

(h) Deferred financing fee

Under Hong Kong GAAP, finance costs incurred prior to 2000 relating to the arrangement of loan facilities were recorded as expenses at the inception of the arrangements.

Under US GAAP, these amounts are deferred and amortised over the term of the loan on a straight-line basis under which the amortised amount approximates the result obtained from the interest method.

(i) Derivatives

The principal financial risks arising from the Group's activities are interest risk, currency risk and counterparty risk. The Group manages these risks by a variety of methods, including the use of a number of financial instruments. All transactions in derivative financial instruments are undertaken for risk management purposes only. No instruments are held by the Group for trading purposes.

Under Hong Kong GAAP, the Group does not separately record derivative financial instruments. Under US GAAP, the Group accounts for all its derivative financial instruments in accordance with SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). Derivative financial instruments are recorded as assets or liabilities and are measured at fair value. When available, quoted market prices are used in determining fair value; however, if quoted market prices are not available, the Group estimates fair value using either quoted market prices of financial instruments with similar characteristics or other valuation techniques.

The Group uses swaps to reduce the effects of fluctuations in foreign currency exchange rates and interest rates. Changes in the fair value of instruments that are designated as cash flow hedges and that qualify for hedge accounting under the provisions of SFAS 133 are accumulated in equity as other comprehensive income (loss) and are recognised in earnings when the hedged transaction occurs. Gains or losses on non-qualifying derivatives are recognised in earnings immediately. Gains or losses on fair value hedges and on the underlying item being hedged are also recorded in earnings.

The Group did not meet the restrictive documentation, designation and effectiveness assessments required under SFAS 133 for its cross currency and interest rate swap contracts to qualify as hedge accounting. As a result, the changes in fair value of the currency and interest rate swap contracts are recognised in earnings as finance gains or losses.

The fair values of the derivative financial instruments have been recorded in the condensed consolidated balance sheet as other long-term liabilities.

The effects of the currency swap of Yen59.4 billion and US$27.5 million term loan in Baht and the currency and interest rate swap for the US$80 million term loan into Indian Rupees are HK$104 million gain and HK$12 million loss for the year ended 31 December 2004 respectively.

(j) Termination benefits

Under Hong Kong GAAP, termination benefits are recognised when there is a legal or constructive obligation to pay the benefits. Constructive obligation exists when a termination plan has been prepared and management has raised a valid expectation in those affected that the plan will be carried out by either starting to implement or announcing the plan.

US GAAP requires employers to recognise the obligation to provide post-employment benefits if the obligation is attributable to employees' services already rendered, employees' rights to those benefits accumulate or vest, payment of the benefits is probable, and the amount of the benefits can be reasonably estimated. However, termination benefits are only accounted when the termination plan has been communicated to employees.

(k) Onerous contracts

Under Hong Kong GAAP, the present obligation under a contract is recognised and measured as a provision if the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received.

Under US GAAP, a liability for costs that will continue to be incurred under a contract for its remaining term without economic benefit should be recognised and measured at its fair value when the rights conveyed by the contract cease to be used.

(l) Deferred Income Tax

Hong Kong GAAP and US GAAP are substantially the same with respect to deferred income tax expense or benefit that affects the Group.

The amounts included in the reconciliation show the income tax effects of the differences between Hong Kong GAAP and US GAAP as described above.

(m) Capitalisation of loans net of related interest

Upon consummation of the Restructuring described in Note 1 to the accounts, US GAAP requires that the Restructuring be accounted for as if it had been consummated as of the beginning of the periods presented. This resulted in the share capital of the Group when reconciled to US GAAP being retroactively restated for the effect of the capitalisation of the long-term amounts due to related companies in exchange for the shares in the Company issued to HWL. Pursuant to the Restructuring, HK$20,869 million of the net amount due to related companies was capitalised on 22 September 2004 as share capital and share premium of the Company, which comprised of both amounts payable included in amounts due to related companies and amounts receivable included in amounts due from related companies on the balance sheet under Hong Kong GAAP. In addition to this amount, retroactive effect has also been given to the interest expense related to the net amounts due to related companies for the periods presented. Thus, under US GAAP, the related interest expense prior to the date of capitalisation was debited against additional paid in capital. Under Hong Kong GAAP, this interest expense was included in the consolidated profit and loss account. Additionally, loss per share in accordance with SFAS 128, "Computation of Earnings per Share," has been disclosed as if the shares had been outstanding for all periods presented.

Under Hong Kong GAAP, the Restructuring was accounted for as if it had been consummated as of the beginning of the periods presented, except for the capitalisation of the net long-term amounts due to related companies and the related interest expense were not reflected until the Restructuring occurred on 22 September 2004.

(n) Exchange translation adjustment

Hong Kong GAAP and US GAAP are substantially the same with respect to calculating the currency translation adjustment for the Group. The amounts included in the reconciliation show the effect on the shareholders' equity of the differences between Hong Kong GAAP and US GAAP described above.

Financial Statements and other US GAAP disclosures

Condensed Consolidated Balance Sheet

	2003 HK$ millions	**2004 HK$ millions**	**2004 US$ millions**
Assets			
Current assets	5,176	**6,463**	**829**
Long-term investments	4,114	**4,254**	**545**
Property, plant and equipment, net	17,730	**20,326**	**2,606**
Intangible assets and goodwill	6,333	**5,388**	**691**
Deferred tax assets	908	**811**	**104**
Other assets	3,860	**4,495**	**576**
Total assets	38,121	**41,737**	**5,351**
Liabilities and Shareholders' Equity			
Current liabilities	11,445	**20,790**	**2,665**
Long-term loans	7,485	**3,638**	**466**
Other long-term liabilities	5,302	**3,815**	**489**
Total liabilities	24,232	**28,243**	**3,620**
Minority interests	750	**999**	**128**
Shareholders' Equity			
Share capital (Authorised: 10,000,000,000 ordinary shares of HK$0.25 each, issued and fully paid: 4,500,000,000 ordinary shares)	1,125	**1,125**	**144**
Additional paid in capital	19,417	**19,041**	**2,441**
Retained deficits	(7,140)	**(7,387)**	**(945)**
Cumulative translation adjustment	(263)	**(284)**	**(37)**
Total shareholders' equity	13,139	**12,495**	**1,603**
Total liabilities and shareholders' equity	38,121	**41,737**	**5,351**

Condensed Consolidated Income Statement

	2003 HK$ millions	**2004 HK$ millions**	**2004 US$ millions**
Revenue	10,100	**14,972**	**1,919**
Operating expenses			
Cost of inventories sold	547	**1,400**	**179**
Depreciation and amortisation	2,254	**2,952**	**378**
Staff costs	1,081	**1,577**	**202**
Other operating expenses	6,131	**9,572**	**1,227**
	10,013	**15,501**	**1,986**
Operating income (loss)	87	**(529)**	**(67)**
Interest income	56	**24**	**3**
Share of income from equity investees	591	**753**	**97**
Interest and other finance costs	(985)	**(1,114)**	**(143)**
Profit on partial disposal of subsidiary company	–	**1,300**	**167**
Net (loss) income before tax	(251)	**434**	**57**
Tax benefit (expense)	184	**(516)**	**(66)**
Minority interests	(291)	**(165)**	**(21)**
Net loss attributable to shareholders	(358)	**(247)**	**(30)**
Loss per share, basic and diluted	HK$(0.08)	**HK$(0.05)**	**US$(0.01)**

Condensed Consolidated Statement of Changes in Shareholders' Equity

	2003 HK$ millions	**2004 HK$ millions**	**2004 US$ millions**
Share capital	1,125	**1,125**	**144**
Additional paid in capital			
Balance, beginning of year	16,969	**19,417**	**2,489**
Share issuance expenses	–	**(414)**	**(53)**
Capitalisation of related companies' loans, net of interest	2,448	**(108)**	**(14)**
Waiver of loan from an intermediate holding company	–	**146**	**19**
Balance, end of year	19,417	**19,041**	**2,441**
Retained deficits			
Balance, beginning of year	(6,782)	**(7,140)**	**(915)**
Net loss	(358)	**(247)**	**(30)**
Balance, end of year	(7,140)	**(7,387)**	**(945)**
Cumulative translation adjustment			
Balance, beginning of year	(145)	**(263)**	**(34)**
Translation adjustment	(118)	**(21)**	**(3)**
Balance, end of year	(263)	**(284)**	**(37)**
Total shareholders' equity	13,139	**12,495**	**1,603**

Variable interest entities

The Group conducts its operations in India and Thailand through entities in which the Company does not have voting control or a majority of the direct equity interest. For the entities in India, in addition to its minority direct interest in each of the entities, the Group also has indirect interests of varying percentages ranging from 0.3% to 25% in the Indian operating entities. The Group has also established an entity to facilitate the sale and leaseback transaction described in Note (g) above. Under Hong Kong GAAP, these entities are included as subsidiary companies for the reasons described in Note 3A to the accounts. Under US GAAP, the Indian and Thai entities are variable interest entities as defined in Financial Accounting Standards Board Interpretation No. 46 ("FIN 46"). As a result of the direct and indirect ownership interests and other financing arrangements, the Group has determined that it was the primary beneficiary, as defined in FIN 46, for these entities from the date of acquisition or incorporation and, accordingly, has included the financial statements of these entities in the Group's consolidated financial statements. FIN 46 has been applied for all periods presented.

The following entities are variable interest entities in which the Group is the primary beneficiary:

	Total Assets as at 31 December 2003 HK$ millions	Revenue for the year ended 31 December 2003 HK$ millions	**Total Assets as at 31 December 2004 HK$ millions**	**Revenue for the year ended 31 December 2004 HK$ millions**
Hutchison CAT Wireless MultiMedia Limited	2,654	348	**1,774**	**1,217**
Operating entities in India	7,309	4,497	**9,606**	**7,075**
Telecom Investments India Private Limited	963	–	**1,014**	**–**
Usha Martin Telematics Limited	357	1	**252**	**18**
Pacific Leasing Limited	2,440	–	**2,329**	**–**

The following entities are variable interest entities in which the Group holds a variable interest, but is not the primary beneficiary:

	Hutchison Telecommunications Argentina S.A.	
	2003 HK$ millions	**2004 HK$ millions**
Balances and results as at and for the year ended 31 December		
Total assets	181	**161**
Revenue	57	**43**
Loss attributable to shareholders	34	**12**
The Group's maximum exposure to loss as a result of its involvement	549	**549**

Fair value of financial instruments

The carrying value of the Group's financial assets including cash and cash equivalents, restricted assets, accounts receivable, other receivables, amounts due from affiliates and financial liabilities including trade accounts payable, other payables and accrued liabilities, current amounts due to affiliates, current portion of capital lease obligations, and current portions of debt approximate their fair values due to their short maturities.

The carrying value of the long term loans approximates their fair values due to their variable interest rates. The estimated fair value of the long term loans is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for debt with similar terms.

The Group has put and call options to acquire certain minority interests in its variable interest entities in India and Thailand. For entities in India, the put and call options are exercisable at anytime at fair value. For the entities in Thailand, the put and call options are exercisable at anytime at a nominal value.

Operating income (loss)

Results of income from equity investees and the HK$1,300 million gain on partial disposal of a subsidiary company are excluded from operating income under US GAAP while these are included in operating income under Hong Kong GAAP.

Comprehensive income

US GAAP requires that all items that are required to be recognised as components of comprehensive income be reported in a separate financial statement. There are no material differences between total recognised gains and losses for the years ended 31 December 2003 and 2004 shown in the Consolidated Statements of Changes in Equity presented under Hong Kong GAAP and the Consolidated Statements of Changes in Equity presented under US GAAP, except for the differences between Hong Kong and US GAAP profit attributable to shareholders shown above.

Risk and Uncertainties

The relevant telecommunications governing authorities have retained the right, to a certain extent, to modify the terms and conditions of licence agreements at any time if in its opinion it is necessary or expedient to do so in the interest of the general public or for the proper operation of the telecommunications sector. This includes the right to permit additional telecommunications operators to enter the telecommunications sector at any time the governing authorities see fit.

Further, the Group is exposed to the following types of market risk:

(i) Credit risk

The carrying amount of accounts receivable included in the balance sheet represents the Group's exposure to credit risk in relation to its financial assets. The Group's receivables are unsecured to the extent they are not covered by security deposits. The Group believes that adequate provision for uncollectible accounts receivable has been made.

(ii) Interest rate risk

The Group is exposed to changes in interest rates due to its long-term debt obligations. The Group enters into debt obligations to support general corporate purposes including capital expenditures, acquisitions, and working capital needs. The Group has entered into certain interest swap arrangements as described in Note 19 to the accounts.

(iii) Foreign currency risk

The Group has assets and liabilities that are subject to fluctuations in foreign currency exchange rates. The Group has entered into certain foreign currency swap instruments as described in Note 19 to the accounts to reduce its economic exposure to changes in the exchange rates related to debt obligations in Thailand and India. The Group also had non-HK$ denominated bank balances amounting to HK$719 million and HK$1,117 million as of 31 December 2003 and 2004 respectively. The Group has foreign currency denominated bank loans, the details of which are disclosed in Note 19 to the accounts.

Pensions

The Group's major pension plans are in Hong Kong and India as described in Note 22 to the accounts.

The Group's subsidiary companies in Hong Kong participate in two employer plans, as established by HWL (multiemployer plans). The allocation to the annual pension cost to the companies and contributions to the plan have been determined on actuarial basis.

In addition, all employees of the subsidiary companies in India are entitled to receive benefits from a provident fund. The employee and the employer both make monthly contributions to the plan. The Group's monthly contributions are expensed as incurred.

Loss per share

In accordance with SFAS No. 128, "Computation of Earnings per Share", basic loss per share for the years ended 31 December 2003 and 2004 is based upon the net loss attributable to shareholders of HK$358 million and HK$247 million, respectively, and the weighted average of 4.5 billion ordinary shares issued upon the Restructuring, as described in Note 1 to the accounts as if such shares had been outstanding for all periods presented.

The amount of diluted loss per share is equal to basic loss per share as there were no dilutive ordinary shares in existence for the periods presented.

Stock based compensation

Prior to the Group's acquisition of an additional 16% of HGCH, HGCH issued stock options to certain of its employees. Under Hong Kong GAAP, the cost of stock options is recognised upon the date of exercising the stock options. US GAAP requires recognition of the cost of stock options awarded to employees over the period to which the employee's service relates. The cost of benefits may be determined using either the intrinsic value method or a fair value method. The Group accounts for its employee share compensation using the intrinsic value method. The accounting for the stock options does not have any impact on the Group's consolidated financial statements under the intrinsic value method. The fair value method results in pro forma loss per share equal to the reported loss per share.

Deferred Taxation

As of 31 December 2004, the Group had accumulated tax losses amounting to HK$10,626 million (2003 – HK$8,719 million) which may be carried forward and applied to reduce future taxable income which is carried in or derived from Hong Kong and overseas. The tax effect on the accumulated tax losses amounted to HK$2,125 million (2003 – HK$1,771 million).

The tax losses of the Hong Kong subsidiary companies can be carried forward indefinitely while the tax losses of subsidiary companies in overseas expire within periods ranging from 2005 to 2010 years. Realisation of deferred tax assets associated with tax loss carry forwards is dependent upon generating sufficient taxable income.

At 31 December 2004, a valuation allowance of HK$1,436 million (2003 – HK$718 million) had been provided for against the remaining deferred tax assets related to the tax losses carried forward since management believes it is more likely than not that taxable income will not be sufficient in the foreseeable future to utilise the tax loss carry forwards.

	2003 HK$ millions	**2004** **HK$ millions**
Net deferred tax assets:		
Deferred tax liabilities	(46)	**(148)**
Deferred tax assets	1,628	**2,280**
Valuation allowance	(718)	**(1,436)**
Net deferred tax assets	864	**696**

Effect of Recent Pronouncements

SFAS 123(R)

In December 2004, the FASB issued FASB Statement No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R") which replaces FASB Statement No. 123, "Accounting for Stock-Based Compensation" and supersedes APB No. 25, "Accounting for Stock Issued to Employees". SFAS No. 123R will provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognised in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Public entities (other than those filing as small business issuers) will be required to apply SFAS No. 123R as of the first interim or annual reporting period that begins after 15 June 2005. The adoption of SFAS 123R is not expected to have a significant impact on the consolidated financial statements.

SFAS 153

In December 2004, the FASB issued FASB Statement No. 153, "Exchanges of Nonmonetary Assets", which amends APB Opinion No. 29, "Accounting for Nonmonetary Transactions", to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Under SFAS No. 153, exchanges of nonmonetary assets, except for exchanges of nonmonetary assets that do not have commercial substance, should be measured based on the fair value of the assets exchanged. The provisions of this Statement shall be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after 15 June 2005. The Group is currently assessing the impact of the standard on the consolidated financial statements.