Information for US Investors

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

The HKFRS financial statements for the year ended 31 December 2004 have been restated to conform with HKFRS and Hong Kong Accounting Standards ("HKAS") (collectively referred as "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. The impact of the HKFRS is detailed in Note 2(a). The US GAAP financial statements for the year ended 31 December 2004 have been restated as described in the "Correction of prior year financial statements" section below. The effect on net loss attributable to shareholders and shareholders' funds of significant differences between HKFRS and US GAAP therefore have also been restated.

		2004 HK$ millions (Restated)	2005 HK$ millions	2005 US$ millions
Net loss attributable to shareholders under HKFRS		(30)	(768)	(99)
Adjustments:				
Revenue recognition	(a)	12	88	11
Customer acquisition and retention costs	(b)	(129)	61	8
Business combinations	(c)	(379)	(163)	(21)
Deferred financing fee	(e)	(21)	-	-
Termination benefits	(g)	20	(12)	(2)
Onerous contracts	(h)	69	(16)	(2)
Capitalisation of loans net of related interest	(i)	108	-	-
Pension cost	(j)	-	(67)	(9)
Share-based payments	(k)	21	(28)	(3)
Others	(l)	13	37	5
Deferred taxes	(m)	24	(24)	(3)
Minority interest		60	(23)	(3)
Net loss under US GAAP		(232)	(915)	(118)
Loss per share				
– basic		HK$(0.05)	HK$(0.20)	US$(0.03)
– diluted		HK$(0.05)	HK$(0.20)	US$(0.03)

		2004 HK$ millions (Restated)	2005 HK$ millions	2005 US$ millions
Shareholders' funds under HKFRS		13,830	16,170	2,087
Adjustments:				
Revenue recognition	(a)	(7)	80	10
Customer acquisition and retention costs	(b)	(365)	(282)	(36)
Business combinations	(c)	389	(1,014)	(131)
Reversal of goodwill amortisation expense	(c)	65	65	8
Impairment of goodwill	(d)	(719)	(719)	(93)
Derivatives	(f)	(44)	-	-
Termination benefits	(g)	20	7	1
Onerous contracts	(h)	69	54	7
Pension cost	(j)	65	(37)	(5)
Others	(l)	87	101	13
Deferred taxes	(m)	(738)	(747)	(96)
Minority interest		57	2	-
Shareholders' equity under US GAAP		12,709	13,680	1,765
Exchange translation adjustments	(n)	(131)	(27)	(3)

Correction of prior year financial statements

The Group has restated its previously issued US GAAP financial statements for the correction of certain items. The impact of these adjustments is as follows:

	Note	Net loss for the year ended 31 December 2004 HK$ millions
As previously reported		(247)
Adjustments to:		
Depreciation and amortisation	(1) & (3)	(57)
Interest and other finance costs, net	(2)	(26)
Tax benefit	(2), (3) & (4)	142
Minority interest	(4)	(44)
As restated		(232)
Loss per share, basic and diluted, as previously reported		HK$(0.05)
Loss per share, basic and diluted, as restated		HK$(0.05)

	Note	Shareholders' equity as at 31 December 2004 HK$ millions
As previously reported		12,495
Adjustment to translation of licences	(1)	137
Adjustment to derivatives	(2)	(17)
Adjustment to deferred tax liabilities applicable to acquired licences	(3)	94
As restated		12,709

	Note	31 December 2004, as previously reported HK$ millions	Adjustments HK$ millions	31 December 2004, as restated HK$ millions	31 December 2003, as previously reported HK$ millions	Adjustments HK$ millions	31 December 2003, as restated HK$ millions
Intangible assets and goodwill	(1) & (3)	5,388	897	6,285	6,333	751	7,084
Other assets	(2) & (4)	36,349	13	36,362	31,788	16	31,804
Liabilities	(1) & (2)	28,243	696	28,939	24,232	796	25,028
Minority interest	(4)	999	-	999	750	(44)	706

(1) The Group revised its recording of the translation of its licences into the respective functional currency using period end rates rather than historical exchange rates. The Group has restated the carrying value of the licences, related cumulative translation adjustments and amortisation expense in its 2004 and prior period financial statements.

(2) The Group revised its recording of the fair value of derivatives as of 31 December 2004. Accordingly, asset carrying values and the related gains and losses have been restated in the 2004 and prior period financial statements.

(3) In connection with acquisitions in India made during 2000, the Group determined it did not record deferred tax liabilities applicable to acquired licences. Balances related to licences, deferred tax liabilities, amortisation expense and deferred tax benefit have been restated in the 2004 and prior period financial statements.

(4) The Group revised its recording of the effect attributable to certain tax holidays for its subsidiaries in India. The deferred tax assets and liabilities and related income tax expense or benefit and minority interest have been restated to record the effect of the tax holidays in the proper period.

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

(a) Revenue recognition

Under HKFRS, connection and installation fees are recognised as revenue 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.

Under HKFRS, there is no technical guidance on the accounting of multiple element contracts. Revenue allocation to sales of handsets and services is based on the respective values as stated in the subscribers' contracts.

Under US GAAP, the Group adopted EITF 00-21 on "Revenue Arrangements with Multiple Deliverables", which addresses the accounting, by a vendor, for contractual arrangements in which multiple revenue-generating activities will be performed by the vendor. EITF 00-21 also addresses when and, if so, how an arrangement involving multiple deliverables should be divided into separate units of accounting. The fair value method is used when allocating the revenue for each unit of accounting. The amount allocated to the delivered item, i.e. handsets, is limited to the amount that is not contingent on the delivery of additional items or meeting other specific performance conditions. This resulted in different amounts being allocated to the handsets between HKFRS and US GAAP.

(b) Customer acquisition and retention costs

Under HKFRS, as described in Note 2(l)(i), certain customer acquisition and retention costs, comprising of handset subsidies, sales commission and other direct costs for acquisition and retention purposes, are capitalised and amortised over the minimum enforceable contractual period. In the event a customer ends its relationship before the costs have been fully amortised, the unamortised acquisition and retention costs are written off.

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

(c) Business combinations

Under HKFRS, prior to 1 January 2004, 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. From 1 January 2004, with the early adoption of HKFRS 3, the excess of cost directly attributable to the business combination over the Group's share of fair values of the identifiable assets, liabilities and contingent liabilities acquired is recognised as goodwill. Up to 31 December 2003, goodwill was amortised over its estimated useful economic life, a period of no longer than 20 years. Starting 1 January 2004, goodwill is no longer subject to amortisation but is tested for impairment annually, as well as when there are indicators of impairment. Intangible assets 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 and whose fair value can be measured reliably. In the event the criteria cannot be met, intangibles are not recognised and the corresponding amount will be included as part of goodwill.

Under US GAAP, the cost of the acquisition is allocated to the proportionate share of 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 adjustment made to intangible assets is HK$3,002 million (2004 - HK$3,877 million).

In February 2005, the Group's various interests in India were reorganised under Hutchison Essar Limited ("Hutchison Essar", also formerly known as Hutchison Max Telecom Private Limited), the Group's mobile telecommunications operator in Mumbai (the "India Restructuring"). Prior to the India Restructuring, the Group's effective interest in the six India operating entities ranged from 49% to 74%. Subsequent to the India Restructuring, Hutchison Essar owned 100% of the equity interest in the other five India operating entities and the Group held an effective interest of 56% in Hutchison Essar (the Group's effective interest has subsequently changed to 53% and 54% in June and October 2005 respectively). Under both HKFRS and US GAAP, the reorganisation of the interest that was held by the Group was accounted for as a transaction amongst entities under common control. Under HKFRS, changes in the non-controlling interests of the Group were accounted for at their carrying value and the excess of consideration given up over the carrying value of the non-controlling interest acquired was recorded as an offset against goodwill. Under US GAAP, the acquisition of the non-controlling interests of the Group was accounted for using the purchase method, resulting in the percentage of assets and liabilities acquired being recorded at their fair value.

In July 2005, the Group privatised, by way of scheme of arrangement, Hutchison Global Communications Holdings ("HGC"), which holds the Group's Hong Kong fixed-line business (the "HGC privatisation"). Part of the consideration was settled by issuance of shares. Under HKFRS, the HGC privatisation was considered as a transaction amongst entities under common control. The Group has accounted for the additional interests acquired at their carrying value at the date of the transaction and the excess of consideration given up over the carrying value of minority interests acquired being recorded as goodwill. Under US GAAP, this transaction was an acquisition of noncontrolling interests in subsidiaries and was accounted for using the purchase method, resulting in fair value adjustments being made to tangible assets and recognition of intangible assets. There is also a difference between HKFRS and US GAAP in the cost of acquisition. Under HKFRS, shares issued as consideration are recorded at their fair value as at the date of the exchange, the date that the Group is legally obliged to deliver cash or shares to the minority shareholders and the minority shareholders are legally obliged to give up their shares in HGC in return, i.e. the date when all the conditions that might prevent the transaction from proceeding have been met. Under US GAAP, shares issued as consideration are measured at their market price over a reasonable period of time before and after the parties reach an agreement on the purchase price and the proposed transaction is announced. The difference in consideration resulted in lower amount of goodwill of HK$56 million under US GAAP.

For the India Restructuring and the HGC privatisation, details of net assets acquired and goodwill are as follows:

	India Restructuring HK$ millions	HGC privatisation HK$ millions
Purchase consideration	346	2,339
Carrying value of minority interest acquired	200	57
Fair value of net assets acquired - shown as below	103	363
Goodwill	43	1,919

The fair value of net assets acquired are as follows:

	HK$ millions	HK$ millions
Property, plant and equipment, net	(53)	440
Customer contracts and customer relationships	85	-
Distribution network and direct sales associates relationship	45	-
Licences	17	-
Other assets	3	-
Deferred tax assets/(liabilities)	6	(77)
	103	363

In April 2005, the Group's shareholding in Partner increased from 42.9% to 52.2% following the completion of a buyback of shares by Partner from certain of its shareholders. The Group is deemed to have acquired an additional 9.3% of the issued share capital of Partner and resulted in a consolidation of Partner as a subsidiary company. This transaction was accounted for using the purchase method under both HKFRS and US GAAP. Under HKFRS, all the assets and liabilities were fair valued, resulting in the differences between the fair value and book value of the portion of interests held prior to the transaction being included in the investment revaluation reserves. Under US GAAP, only the additional interest acquired is stepped up to its fair value, with minority interest recorded at historical costs.

(d) Impairment of goodwill

Under HKFRS, the Group will perform an impairment review to ensure its goodwill and other long-lived assets are carried at no more than their recoverable amount if there is an indication of impairment, or at least annually for goodwill. The recoverable amount of an asset is the higher of its fair value less cost to sell 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.

(e) 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 effective interest method.

(f) Derivatives

Under HKFRS, with the adoption of HKAS 32 and 39, derivative financial instruments are measured at fair value and recorded as assets or liabilities on the consolidated financial statements effective 1 January 2005. HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis. Under US GAAP, derivative financial instruments are recorded as assets or liabilities at fair value in all prior periods. Therefore, there is a GAAP difference in 2004 due to transitional provisions under HKFRS.

(g) Termination benefits

Under HKFRS, 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 could have 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 recognised when the termination plan has been communicated to employees.

(h) Onerous contracts

Under HKFRS, 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.

(i) Capitalisation of loans net of related interest

Upon consummation of the Group's restructuring for initial public offering ("the Restructuring") in 2004, 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 HKFRS. In addition to this amount, retroactive effect has also been given to the interest expense related to the net amounts due to related companies. Thus, under

US GAAP, the related interest expense till the date of capitalisation was debited against additional paid in capital. Under HKFRS, this interest expense was included in the consolidated profit and loss accounts. 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 the full year of 2004.

(j) Pension cost

Under HKFRS, as described in Note 2(x)(i), actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in full in the year in which they occur outside the profit and loss account and are included in the statement of recognised income and expense.

Under US GAAP, unrecognised actuarial gains and losses are recognised by amortising the amount by which cumulative unrecognised gains and losses exceed 10% of the greater of the assets of the scheme and the defined benefit obligations over the average expected future working lifetime of the Group's employees.

Under HKFRS, provision for severance payments in Thailand is accounted for under the actuarial method.

Under US GAAP, provision for severance payments in Thailand is accounted for under the gross method since the actuarial value of benefits on immediate termination exceeds the actuarial value of benefits at the expected date of separation.

(k) Share-based payments

Under HKFRS, as described in Note 2(x)(ii), share-based payments expense is determined by reference to the fair value of the options granted. In accordance with HKFRS 2, the Group applied this HKFRS to share options that were granted after 7 November 2002 and had not yet vested at 1 January 2005.

Under US GAAP, the Group has early adopted SFAS No.123R "Share-Based Payment" from 1 January 2005. SFAS 123R replaces FASB statement No.123, "Accounting for Stock-Based Compensation" and supersedes APB No.25, "Accounting for Stock Issued to Employees". SFAS No.123R requires the compensation cost relating to share-based payment transactions be recognised in the financial statements. That cost will be measured based on fair value of the equity or liability instruments issued. Under US GAAP, share options that were granted after 7 November 2002 and vested before 1 January 2005 were accounted for based on APB No.25. Share options that were unvested as at 1 January 2005 were measured in accordance with the transitional provisions of SFAS No.123R. The Group used the modified prospective transition method as specified in the standard.

(l) Others

Other differences between HKFRS and US GAAP include:

(i) Capitalisation of interest expense

For HKFRS, 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.

(ii) Telecommunication spectrum licences

Under HKFRS, licence fee payments made in India before 1999 were recorded as period costs.

Under US GAAP, licence fee payments made in India before 1999 were capitalised and amortised over the remaining licence period.

Subsequent to 1999, licence fees in India became variable and the payments made were recorded as period costs under both HKFRS and US GAAP.

Under US GAAP, interest cost incurred prior to the launch of the network was also capitalised as part of licence, which was expensed under HKFRS.

(iii) Sale and leaseback transaction

In 1998, the Group entered into a sale and leaseback transaction for certain of its mobile telecommunication assets. Under HKFRS, 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. The arrangement for the financial assets transferred to a third party in exchange for payment of liabilities was considered meeting the criteria for offset under HKAS32 and therefore the related assets and liabilities have been presented on the balance sheet on a net basis.

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, impairment charge under US GAAP has been adjusted for the difference between the cost basis under HKFRS 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". The related assets and liabilities as at 31 December 2005 are HK$2,210 million (2004 - HK$2,329 million).

(m) Deferred income tax

HKFRS 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 HKFRS and US GAAP as described above.

(n) Exchange translation adjustments

Under HKFRS, up to 1 January 2005, goodwill arising from business combinations was translated at historical exchange rates. As at 1 January 2005, with the adoption of HKAS21, goodwill is translated at closing rate for acquisitions take place after 1 January 2005.

Under US GAAP, goodwill and intangible assets arising from business combination are translated at the exchange rates prevailing at the year end.

In 2005, the amounts included in the reconciliation show the effect on the shareholders' funds of the differences between HKFRS and US GAAP described above.

The cumulative translation adjustment impact of each reconciling item is included in each respective reconciling item in the reconciliation for shareholders' funds. The cumulative translation adjustment line at the bottom of the reconciliation is the total of all such translation adjustments presented for information purpose.

Difference in operating income

The determination of operating income / loss under HKFRS is different from that under US GAAP. In 2004, the restated operating income reported per HKFRS is HK$1,494 million and the restated operating loss reported per US GAAP is HK$558 million. The difference related to the classification of share of income from equity investees of HK$338 million and the profit on partial disposal of subsidiary company of HK$1,300 million being included in the HKFRS operating income and the result of the differences between HKFRS and US GAAP described above.

In 2005, the operating income reported per HKFRS is HK$2,240 million and the operating income reported per US GAAP is HK$1,966 million. The difference related to the classification of share of income from equity investees of HK$86 million and the profit on partial disposal of subsidiary company of HK$71 million being included in the HKFRS operating income and the result of the differences between HKFRS and US GAAP described above.

Condensed Consolidated Statement of Changes in Shareholders' Equity

	2004 HK$ millions (Restated)	2005 HK$ millions	2005 US$ millions
Share Capital			
Balance, beginning of year	1,125	1,125	144
Issuance of ordinary shares	-	63	9
Balance, end of year	1,125	1,188	153
Additional paid in capital			
Balance, beginning of year	19,417	19,041	2,457
Share issuance cost	(414)	-	-
Capitalisation of related company loans, net of interest	(108)	-	-
Waiver of loan from an intermediate holding company	146	-	-
Related to subsidiary companies acquired	-	1,801	232
Share-based payments	-	117	15
Balance, end of year	19,041	20,959	2,704
Accumulated deficits			
Balance, beginning of year, as previously reported	(7,140)	(7,084)	(914)
Restatement	288	-	-
Balance, beginning of year, as restated	(6,852)	(7,084)	(914)
Net loss	(232)	(915)	(118)
Balance, end of year	(7,084)	(7,999)	(1,032)
Cumulative translation adjustments			
Balance, beginning of year, as previously reported	(263)	(373)	(48)
Restatement	(275)	-	-
Balance, beginning of year, as restated	(538)	(373)	(48)
Translation adjustment	165	(214)	(27)
Related to subsidiary disposed of	-	119	15
Balance, end of year	(373)	(468)	(60)
Total shareholders' equity	12,709	13,680	1,765

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 direct minority interest in each of the entities, the Group also had indirect interests of varying percentages ranging from 0.3% to 25% in the Indian operating entities in 2004. In February 2005, after the India Restructuring, the Group has 56% direct interest in all the India operating entities (the Group's effective interest has subsequently changed to 53% and 54% in June and October 2005 respectively). The Group has also established an entity to facilitate the sale and leaseback transaction described in Note I(iii) above. Under HKFRS, these entities are included as subsidiary companies for the reasons described in Note 2(c). Under US GAAP, these entities are variable interest entities as defined in Financial Accounting Standards Board Interpretation No. 46 ("FIN 46R"). 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 46R, 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 46R 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 2004 HK$ millions	Revenue for the year ended 31 December 2004 HK$ millions	Total Assets as at 31 December 2005 HK$ millions	Revenue for the year ended 31 December 2005 HK$ millions
Hutchison CAT Wireless MultiMedia Limited	1,774	1,217	1,419	1,045
Operating entities in India	9,606	7,075	14,004	9,991
Telecom Investments India Private Limited	1,014	-	1,024	-
Usha Martin Telematics Limited	252	18	1,069	6
Pacific Leasing Limited	2,329	-	2,210	-

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

	Hutchison Telecommunications Argentina S.A.	
Balances and results as at and for the year ended 31 December	2004 HK$ millions	2005 HK$ millions
Total assets	161	14
Revenue	43	32
Loss attributable to shareholders	12	113
The Group's maximum exposure to loss as a result of its involvement	549	552

Fair value of financial instruments

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.

Deferred taxation

As of December 2005, the Group had accumulated tax losses amounting to HK$9,809 million (2004 - HK$10,626 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$2,203 million (2004 - HK$2,125 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 2006 to 2011. Realisation of deferred tax assets associated with tax loss carry forward is dependent upon generating sufficient taxable income.

At 31 December 2005, a valuation allowance of HK$2,578 million (2004 - HK$1,436 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 forward.

	2004 HK$ millions	2005 HK$ millions
Net deferred tax (liabilities)/assets:		
Deferred tax liabilities	(883)	(768)
Deferred tax assets	2,278	3,492
Valuation allowance	(1,436)	(2,578)
Net deferred tax (liabilities)/assets	(41)	146

Business Co-operation Contract

As discussed in Note 2(f), the Group obtained an investment licence to engage in a business co-operation under a Business Co-operation Contract ("BCC") in Vietnam. Under HKFRS, the Group has recognised in its financial statements the assets that it controls and the liabilities that it incurs, as well as, the expenses that it incurs and its share of the income, if any, from the BCC. Under US GAAP, the BCC is accounted for as an operating lease in accordance with EITF 01-08 "Determining whether an arrangement contains a lease". The difference between HKFRS and US GAAP does not have any impact on net income and shareholders' equity as at 31 December 2005.

Effect of Recent Pronouncements

SFAS No. 154

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements" ("SFAS 154"). SFAS 154 changes the requirements for the accounting for, and reporting of, a change in accounting principle. Previously, voluntary changes in accounting principles were generally required to be recognised by way of a cumulative effect adjustment within net income during the period of the change. SFAS 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes made in fiscal years beginning after 15 December 2005; however, the statement does not change the transitional provisions of any existing accounting pronouncements. The Group does not believe adoption of SFAS 154 will have a material effect on its financial position, cash flows or results of operations.

FSP 13-1

In October 2005, the FASB issued FSP No. FAS 13-1, "Accounting for Rental Costs Incurred during a Construction Period" ("FSP 13-1"). This FSP addresses whether a lessee may capitalise rental costs incurred during a construction period. According to the FSP, rental costs incurred during and after a construction period are for the right to control the use of a leased asset during and after construction of a lessee asset. There is no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period, therefore, rental costs associated with ground or building operating leases that are incurred during a construction period shall be recognised as rental expense. FSP 13-1 is effective for financial periods beginning after 15 December 2005. The Group is currently assessing the impact of FSP 13-1 to its financial position, cash flows or results of operations.

EITF D-108

In 2005, the Group adopted EITF D-108 "Use of the Residual Method to Value Acquired Assets Other Than Goodwill," Under EITF Topic D-108, registrants are required to use a direct value method for the impairment testing of indefinite lived intangible assets. Impairments of intangible assets recognised upon application of a direct value method by entities previously applying the residual method are to be reported as a cumulative effect of a change in accounting principle. The Group applied the direct value method to value intangible assets in all of its business combinations during the year. The adoption of EITF D-108 did not result in any impairment of intangible assets recognised in previous business combinations.

SFAS No. 155

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140" ("SFAS 155"). This Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133; establishes a requirement to evaluate interests in securitised financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after 15 September 2006. The Group is currently assessing the impact of SFAS 155 to its financial position, cash flows or results of operations.

SFAS No. 156

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140". This Statement amends FASB Statement No. 140, "Accounting for Transfer and Servicing Financial Assets and Extinguishments of Liabilities" ("SFAS 156"), with respect to the accounting for separately recognised servicing assets and servicing liabilities. This Statement amends the requirement for recognition and measurement of servicing assets and liabilities, and permits all separately recognised servicing assets and servicing liabilities to be subsequently remeasured. It also requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognised servicing assets and servicing liabilities. SFAS 156 is effective for financial periods beginning after 15 September 2006. The Group is currently assessing the impact of SFAS 156 to its financial position, cash flows or results of operations.