

The Group's financial statements are prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP"), which differ in certain significant respects from those in the United States ("US GAAP"). The significant differences relate principally to the following items and the adjustments considered necessary to restate loss for the year and shareholders' funds/(deficit) in accordance with US GAAP are shown in the tables set out below.

- (a) Under HK GAAP, deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or receivable in the foreseeable future.

Under US GAAP, the Group is required to recognise deferred tax assets and liabilities for the expected future tax consequences of all events that have been included in the accounts or tax returns. Under this method, deferred tax assets and liabilities are determined based on the temporary differences between the financial reporting basis and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Future tax benefits in respect of tax losses carried forward are also required to be recognised in full. A valuation allowance is required to be established in respect of such assets to the extent that realisation of such benefits is not likely to occur.

- (b) Under HK GAAP, the share capital of the Company as at 31st December, 1999 has been restated retroactively to reflect the shares in issue and outstanding after the Reorganisation. The Bonus Issue to the shareholders of the Company as described in note 17 to the accounts was treated as unpaid because this Bonus Issue was effected by capitalising part of the share premium arising from the issue of shares pursuant to the Global Offering which was not reflected in these accounts for the year ended 31st December, 1999.

Under US GAAP, the Bonus Issue mentioned above must be given retroactive effect in the balance sheet as at 31st December, 1999. Accordingly, share capital and reserve arising from the Reorganisation as at 31st December, 1999 have been adjusted to reflect the effect of the Bonus Issue.

- (c) Under HK GAAP, debt acquisition and borrowing costs are charged to the profit and loss account when incurred. Under US GAAP, interest attributable to borrowings used to finance the set up of the network equipment is capitalised as an additional cost of the related assets. Interest is capitalised by applying the weighted average interest rate on borrowings outstanding during the year or, where applicable, the interest rate related to specific borrowings, to the average amount of the accumulated expenditures for the assets during the year. Capitalisation of interest ceases when the equipment is ready for its intended use. Debt acquisition costs are capitalised and amortised over the life of the related borrowings using the interest method. Capitalised borrowing cost and debt acquisition cost incurred for the years ended 31st December, 1999 and 2000 are not considered material to either the Group's financial position or results of operations. Accordingly, no difference on debt acquisition and borrowing costs between HK GAAP and US GAAP has been shown in the reconciliation.



- (d) Under HK GAAP, no compensation cost to employees is required to be recognised in respect of the grant of share options. Proceeds from issue of shares upon the exercise of share options are credited to share capital and share premium account respectively and there is no effect on the results of the Group in connection with the Share Option Scheme.

Under US GAAP, Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations have been applied in the computation of the compensation cost for outstanding share options granted to the Company's employees. Accordingly, deferred compensation of HK\$10,254,000 was recognised in respect of options granted with an exercise price lower than the fair market value of the Company's shares at the grant date. The deferred compensation is amortised over the three-year vesting periods of the options. Deferred compensation of HK\$358,000 for the options forfeited are reversed in shareholders' equity. No compensation is recognised for options which are granted with an exercise price equal to the fair market value of the Company's shares at the grant date. Compensation cost charged to consolidated profit and loss account and credited to the unearned compensation for the year ended 31 st December, 2000 was HK\$3,752,000 in respect of amortisation of the deferred compensation.

The following table summarises the effect on loss for the year of the differences between HK GAAP and US GAAP.

| | For the year ended 31st December, | | |
|--|-----------------------------------|---------------------|---------------------|
| | 2000 US\$'000# | 2000 HK\$'000 | 1999 HK\$'000 |
| Loss for the year as reported under HK GAAP | (59,817) | (466,568) | (923,927) |
| US GAAP adjustments: | | | |
| Deferred tax on accelerated depreciation allowances | (102) | (795) | (18,090) |
| Deferred tax assets on tax loss and others | 102 | 795 | 18,090 |
| Compensation cost in respect of amortisation of deferred compensation for share options | <u>(481)</u> | <u>(3,752)</u> | <u>—</u> |
| Loss for the year under US GAAP | <u>(60,298)</u> | <u>(470,320)</u> | <u>(923,927)</u> |
| Basic loss per share under US GAAP | <u>(2.1 cents)</u> | <u>(16.5 cents)</u> | <u>(40.2 cents)</u> |
| Basic loss per ADS under US GAAP * | <u>(US\$6.0)</u> | <u>(HK\$5.0)</u> | <u>(HK\$12.1)</u> |

Information for US Investors

The following table summarises the effect on shareholders' funds/(deficit) of the differences between HK GAAP and US GAAP.

| | As at 31st December, | | |
|---|----------------------|----------------|------------------|
| | 2000 | 2000 | 1999 |
| | US\$'000# | HK\$'000 | HK\$'000 |
| Shareholders' funds/(deficit) as reported under HK GAAP | 128,174 | 999,744 | (957,111) |
| US GAAP adjustments: | | | |
| Deferred tax liabilities | (17,643) | (137,619) | (136,824) |
| Deferred tax assets | 59,667 | 465,400 | 367,672 |
| Valuation allowance | (42,024) | (327,781) | (230,848) |
| Share capital | — | — | 229,999 |
| Reserve arising from the Reorganisation | — | — | (229,999) |
| Share premium in respect of deferred compensation for share options | 1,269 | 9,896 | — |
| Deferred compensation not yet amortised for share options | (788) | (6,144) | — |
| Compensation cost in respect of amortisation of deferred compensation for share options | (481) | (3,752) | — |
| Shareholders' funds/(deficit) under US GAAP | <u>128,174</u> | <u>999,744</u> | <u>(957,111)</u> |

* One ADS is equivalent to 30 shares.

An exchange rate of HK\$7.7999 to the U.S. dollar has been used to translate Hong Kong dollars to US dollars. Such translations are for convenience only and should not be construed as representations that the Hong Kong dollar amounts represent or have been or could be converted into U.S. dollars at that or any other rate.