INFORMATION FOR U.S. INVESTORS

The Group's financial statements are prepared in accordance with generally accepted accounting principles applicable in Hong Kong (HKGAAP), which differ in certain significant respects from accounting principles generally accepted in the United States (USGAAP). Differences between HKGAAP and USGAAP which have significant effects on the profit attributable to shareholders (net income) and shareholders' funds (shareholders' equity) of the Group are summarised as follows:

		Year ended 31st August		
		2002	2001	2000
	Note	**HK$'000**	HK$'000	HK$'000
Profit attributable to shareholders (net income)				
As stated under HKGAAP		**91,129**	53,927	70,001
USGAAP adjustments:				
Compensation cost for share options	(a)	**(21,586)**	(184)	(8,460)
Amortisation of goodwill (acquired prior 30th June 2001)	(b)	**(1,019)**	(1,019)	(1,018)
Reversal of amortisation of goodwill (acquired after 30th June 2001)	(b)	**1,065**	–	–
Deferred advertising and promotional expenses	(c)	**–**	–	6,753
Deferred tax on above USGAAP adjustment		**–**	–	(1,080)
Deferred tax on accelerated depreciation	(d)	**(624)**	1,242	(46)
Profit attributable to shareholders (net income) under USGAAP		**68,965**	53,966	66,150
Profit from continuing operations (less taxation 2002: HK$14,566,000 2001: HK$18,775,000 2000: HK$1,202,000)		**68,965**	64,934	100,002
Loss from discontinued operations (less taxation 2002: HK$Nil, 2001: HK$Nil, 2000: HK$ Nil)	(f)	**–**	(10,968)	(33,852)
Profit attributable to shareholders (net income) under USGAAP		**68,965**	53,966	66,150
Earnings/(losses) per share under USGAAP				
Basic:				
Continuing operations		**HK$13.9 cents**	HK$13.2 cents	HK$21.3 cents
Discontinued operations	(f)	**–**	HK$(2.2) cents	HK$(7.2) cents
Total	(e)	**HK$13.9 cents**	HK$11.0 cents	HK$14.1 cents
Diluted:				
Continuing operations		**HK$12.2 cents**	HK$13.1 cents	HK$20.9 cents
Discontinued operations	(f)	**–**	HK$(2.2) cents	HK$(7.1) cents
Total	(e)	**HK$12.2 cents**	HK$10.9 cents	HK$13.8 cents

INFORMATION FOR U.S. INVESTORS

	Note	31st August 2002 HK$'000	31st August 2001 HK$'000
SHAREHOLDERS' FUNDS (SHAREHOLDERS' EQUITY)			
As stated under HKGAAP		**910,183**	805,306
USGAAP adjustments:			
Goodwill	(b)	**5,092**	5,092
Accumulated amortisation of goodwill	(b)	**(3,735)**	(2,716)
Reversal of amortisation of goodwill	(b)	**1,065**	–
Deferred tax liabilities	(d)	**(5,195)**	(4,571)
Shareholders' funds (shareholders' equity) under USGAAP		**907,410**	803,111

(a) Compensation cost for share options

Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations have been applied in the computation of the compensation cost for the outstanding share options granted to the Group's employees.

Under HKGAAP, no compensation cost to staff 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 Company in connection with any share option schemes.

On 19th September 1997, the Company issued 1,500,000 options to certain executive directors of the Group at an exercise price fixed at HK$1.20 on 19 September 1997. The difference of HK$0.30 per share between the exercise price of HK$1.20 and the market value of the shares on 19th September 1997 of HK$1.50 was being amortised to the statements of income over the vesting period of the options of three years up to 18th September 2000. Pursuant to a board resolution passed on 20th October 2000, the options were cancelled and on the same date, 1,500,000 options were issued to the same executive directors at an exercise price fixed at HK$0.58 per share. Due to this repricing arrangement, under USGAAP the 1,500,000 options have been accounted for as variable options since that date in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation", and interpretation of APB 25. Compensation expense is recognised based on the difference between the exercise price of HK$0.58 and the Company's share price at the date on which they are exercised or at each balance sheet date if they are still outstanding.

Pursuant to a board resolution passed on 20th October 2000, 20,908,000 options out of 21,030,000 options granted to certain employees including three executive directors on 2nd June 2000 at an exercise price of HK$1.50 were cancelled. On the same date, 20,908,000 new options were issued to the same employees including the three executive directors at an exercise price fixed at HK$0.58. Because of this repricing arrangement, these options shall also be accounted for as variable options and compensation expense is recognised based on the difference between the exercise price of HK$0.58 and the Company's share price at the date on which they are exercised or at each balance sheet date if they are still outstanding and amortised to the profit and loss account over the vesting period of the options. All options were fully vested as of 31st August 2002.

(b) Goodwill

Prior to 1st September 2001, under HKGAAP the Group charged goodwill on acquisition of a business, which represents the excess of the cost of investment over the fair value ascribed to the net underlying assets acquired, against available reserves. In accordance with the change in accounting standards on HKGAAP, goodwill on acquisitions occurring on or after 1st September 2001 is shown separately on the consolidated balance sheet and is amortised using the straight-line method over its estimated useful life (see Note 1(c) of the notes to the accounts). Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a period of not more than 20 years. The Group has taken advantage of the transitional provisions of SSAP 30 and goodwill previously written off against reserves has not been restated. Where an indication of impairment exists, the carrying amount of goodwill, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

Under USGAAP, goodwill recorded on the acquisition of a business prior to 30th June 2001 is currently capitalised and amortised to the profit and loss account over its expected useful life of five years. In June 2001, the FASB issued the Statement of Financial Accounting Standard ("SFAS") No. 142 "Goodwill and Other Intangible Assets" effective for fiscal years beginning after 15th December 2001. In connection with the adoption of this standard, in fiscal 2003 under USGAAP, the Group will cease amortising goodwill recognised on business combinations initiated prior to 30th June 2001 and will be required to perform a transitional goodwill impairment assessment. Goodwill recognised on business combinations initiated after 30th June 2001, is subject to immediate non-amortization under SFAS No. 142 in fiscal 2002. See also note (g) below.

(c) Deferred advertising and promotional expenses

There is no accounting standard under HKGAAP on the accounting for advertising and promotional costs. Prior to 1st September 1999, the Group adopted the policy that advertising costs incurred for the launch of trade names of new services which are expected to be profitable in the near future were deferred and amortised on a straight-line basis over a period of twelve months, and the cost of gifts given to internet subscribers as inducements to enter into internet access service agreements was deferred and amortised over the life of the related agreements. All other advertising and promotional costs were charged to the profit and loss account as incurred.

Since 1st September 1999, all advertising and promotional costs have been charged to the profit and loss account as incurred.

Under USGAAP, advertising and promotional costs other than certain direct response advertising as defined in Statement of Position 93-7 should be charged to the profit and loss account as incurred and should not be deferred.

(d) Deferred taxes

Under HKGAAP, deferred taxation is accounted for at the current taxation rate with respect to 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. In determining whether a liability is expected to be payable in the foreseeable future the Group assesses the effect of its capital expenditures and other plans. If these plans indicate that sufficient accelerated tax allowances will be available to offset the effect of the reversal of timing differences, a deferred tax liability is not established for such timing differences, in accordance with the requirements of HKGAAP.

Under USGAAP, 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 financing 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 carry forwards are also required to be recognised in full. A valuation allowance is required to be established for such assets if it is more likely than not that the Group will not be able to utilise such benefits in the future.

As of 31st August 2002, the Company had accumulated tax losses amounting to HK$754,899,000 (2001: HK$534,600,000). The tax effect on the accumulated tax losses amounted to HK$127,522,000 (2001: HK$92,801,000) may be carried forward and applied to reduce future taxable income which is carried in or derived from Hong Kong, Japan, Canada and the United States.

INFORMATION FOR U.S. INVESTORS

(d) Deferred taxes (Cont'd)

The tax losses of the Hong Kong subsidiaries can be carried forward indefinitely while the overseas tax losses expire within periods ranging from 5 to 20 years. Realisation of deferred tax assets associated with tax loss carry forwards is dependent upon generating sufficient taxable income. To the extent that companies with tax losses also have deferred tax liabilities, a valuation allowance is not considered necessary since it is more likely than not that the losses can be utilised to offset the liabilities in full. At 31st August 2002, a valuation allowance of HK$62,739,000 (2001: HK$49,409,000) had been provided for against the remaining tax losses since management believes it is more likely than not that insufficient taxable income will be generated in the foreseeable future to utilise the tax loss carry forwards.

(e) Earnings per share

	Year ended 31st August		
	2002	2001	2000
	HK$'000	HK$'000	HK$'000
Profit attributable to shareholders (net income) under USGAAP	**68,965**	53,966	66,150
Basic weighted average common shares issued and outstanding	**495,181**	490,679	468,946
Incremental shares from assumed exercise of share options	**11,219**	3,770	9,105
No. of shares from assumed exercise of warrants	**59,489**	–	–
Diluted weighted average common and potential shares issued and outstanding	**565,889**	494,449	478,051
Earnings per share under USGAAP			
Basic	**HK$13.9 cents**	HK$11.0 cents	HK$14.1 cents
Diluted	**HK$12.2 cents**	HK$10.9 cents	HK$13.8 cents

Basic earnings per share is calculated based on the weighted average number of ordinary shares issued and outstanding. Diluted earnings per share includes the effect of diluted ordinary common share equivalent as if outstanding for each of the relevant years and the related income amounts. The number of incremental shares from assumed exercise of stock options and warrants has been determined using the treasury method.

At 31st August 2002, 60,000 (2001: 126,000, 2000: Nil) options to purchase shares of the company were outstanding but have not been included in the calculation of diluted earnings per share as the effect of exercise would have been anti-dilutive.

(f) Discontinued operations

In 2002 the Group discontinued its internet advertising operations as it continues to focus on its core business of international telecommunications services and fixed telecommunications network services. There was no gain or loss on disposal as the related employees and fixed assets are now part of the Group's marketing function. Under HK GAAP, presentation of continuing and discontinued operations is not required, while under US GAAP, profit or loss from discontinued operations would be shown on a separate line in the profit and loss statement below income from continuing operations.

(g) Recent accounting pronouncement

The FASB has issued certain pronouncements which are not effective with respect to the fiscal years or periods presented in the consolidated financial statements.

In June 2001, the FASB issued SFAS No. 141 "Business Combinations" and No. 142 "Goodwill and Other Intangible Assets".

SFAS 141 supersedes Accounting Principles Board Opinion (APB) No. 16, Business Combinations. The provisions of SFAS 141 (1) require that the purchase method of accounting be used for all business combinations initiated after 30th June 2001, (2) provide specific criteria for the initial recognition and measurement of intangible assets apart from goodwill, and (3) require that unamortised negative goodwill be written off immediately as an extraordinary gain instead of being deferred and amortised. SFAS 141 also requires that upon adoption of SFAS 142 the Group reclassify the carrying amounts of certain intangible assets into or out of goodwill, based on certain criteria. SFAS 142 supersedes APB 17, "Intangible Assets", and is effective for fiscal years beginning after 15th December 2001.

SFAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. The provisions of SFAS 142 (1) prohibit the amortisation of goodwill and indefinite-lived intangible assets, (2) require that goodwill and indefinite-lived intangibles assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or indefinite-live intangible assets may be impaired), (3) require that reporting units be identified for the purpose of assessing potential future impairments of goodwill, and (4) remove the forty-year limitation on the amortisation period of intangible assets that have finite lives.

The Group will adopt the provisions of SFAS 142 on 1st September 2002, the beginning of fiscal 2003. The Group is in the process of preparing for its adoption of SFAS 142 and is making the determinations as to what its reporting units are and what amounts of goodwill, intangible assets, other assets, and liabilities should be allocated to those reporting units. In connection with the adoption of SFAS 142, the Group will be required to perform a transitional goodwill impairment assessment for goodwill acquired prior to 30th June 2001.

Under US GAAP, the Group expects that it will no longer record HK$1,019,000 of annual amortisation expense relating to its existing goodwill.

SFAS 142 requires that goodwill be tested annually for impairment using a two-step process. The first step is to identify a potential impairment and, in transition, this step must be measured as of the beginning of the fiscal year, but a Group has six months from the date of adoption to complete the first step. The Group expects to complete that first step of the goodwill impairment test during the first quarter of 2003. The second step of the goodwill impairment test measures the amount of the impairment loss (measured as of the beginning of the year of adoption), if any, and must be completed by the end of the Group's fiscal year. Any impairment loss resulting from the transitional impairment tests will be reflected as the cumulative effect of a change in accounting principle in fiscal 2003. The Group has not yet determined what effect these impairment tests will have on the Group's earnings and financial position.

INFORMATION FOR U.S. INVESTORS

(g) Recent accounting pronouncement (Cont'd)

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), which supercedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and APB No. 30 "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". This standard is effective for fiscal years beginning after 15th December 2001. It maintains the previous accounting for the impairment or disposal of long-lived assets, but also establishes more restrictive criteria that must be met to classify such an asset as "held for sale". SFAS 144 also increases the range of dispositions that qualify for reporting as discontinued operations, and changes the manner in which expected future operating losses from such operations are to be reported.

In April 2002, the FASB issued SFAS 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 30, 2002". Through this rescission, SFAS 145 eliminates the requirement (in both SFAS 4 and SFAS 64) that gains and losses from the extinguishment of debt be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. SFAS 145 also rescinds SFAS "Accounting for Intangible Assets of Motor Carriers". Further, SFAS 145 amends SFAS 13, "Accounting for Leases", to eliminate an inconsistency between the accounting for sale-leaseback transactions and certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their changed conditions. SFAS 145 is effective for either fiscal years beginning after or transactions occurring after 15th May 2002, subject to the related provisions.

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146), which nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" and Issue No. 88-10, "Costs Associated with a Lease Modification or Termination". This standard is effective for exit or disposal activities initiated after 31st December 2002 with early application encouraged. SFAS 146 establishes guidelines for the recognition and measurement of those costs and requires a liability for such costs be recognised and measured initially at fair value only when the liability is incurred.

The Group has evaluated the requirements of the above statements and believes that the adoption of these new standards would not have a material impact on its financial position or on its results or operations.

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