

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

(Expressed in Hong Kong dollars)

The Group's accounting policies conform with generally accepted accounting principles in Hong Kong ("HK GAAP") which differ in certain material respects from those applicable generally accepted accounting principles in the United States of America ("US GAAP").

The significant differences relate principally to the following items and the adjustments considered necessary to present the net (loss)/profit and shareholders' equity in accordance with US GAAP are set out below.

(a) Revenue recognition

Certain of the Group's transponder lease agreements for transponder capacity contain pre-determined escalations over the terms of the agreements. Prior to 2002, revenue was recognised on an accrual basis under the contract terms under HK GAAP. Under US GAAP, revenue is recognised on a straight-line basis over the relevant lease term. Effective from 1 January 2002, revenue is recognised on a straight-line basis over the relevant lease terms under HK GAAP. As such, US GAAP adjustments were made in 2002 to reverse the accumulated difference as at 31 December 2001 between revenue recognised on an accrual basis and on a straight-line basis under HK GAAP, and its corresponding tax effect.

(b) Investment properties revaluation and depreciation

Under HK GAAP, investment properties are stated at appraised values and are not depreciated. Changes in the value of investment properties are dealt with as movements in the investment properties revaluation reserve in the shareholders' equity. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the income statement. Under US GAAP, investment properties are stated at cost and depreciated over the lease terms. Accordingly, the investment properties of the Group and its jointly controlled entity, which are stated at open market value, have been restated at historical cost less accumulated depreciation.

Depreciation has been based on the historical cost of the properties held by the Group and its jointly controlled entity and the useful lives of such properties which range from 44 to 46 years. The gross historical cost of properties held by the Group and a jointly controlled entity subject to depreciation under US GAAP which are not depreciated under HK GAAP at 31 December 2003 amounted to \$3,821,000 (2002: \$3,821,000) and \$140,000,000 (2002: \$nil), respectively. The adjustments represent the effects of reversal of revaluation and the depreciation charged under US GAAP.

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(c) Share options

Under HK GAAP, no compensation expense is recognised.

Under US GAAP, in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issue to Employees" ("APB 25"), compensation expense is recognised for options granted to employees and amortised over the vesting period of the options concerned to the extent that the fair value of the equity instrument exceeds the exercise price of the option granted at a defined measurement date, which is generally the grant date unless certain conditions apply. Under Statement of Financial Accounting Standard ("SFAS") No. 123 "Accounting for Stock-Based Compensation", an entity may alternatively compute compensation expense based on the fair value of the options granted. The Company has adopted APB 25 for purposes of accounting for its fixed plan stock options issued to employees.

When the eligible employees are resigned and their corresponding share options will be cancelled, adjustment is made to reverse any previous years' amortised compensation expenses of those employees under US GAAP.

(d) Goodwill

Under HK GAAP, the Group adopted the acquisition method to account for the purchase of subsidiaries from the holding company. Under the acquisition method, the acquired results are included in the results of operations from the date of their acquisition. For acquisitions before 1 January 2001, goodwill arising on the acquisition, being the excess of the cost over the fair value of the Group's share of the separable net assets acquired is eliminated against reserves immediately on acquisition. For acquisitions on or after 1 January 2001, goodwill arising on the acquisition is amortised to the consolidated income statement on a straight-line basis over its estimated useful life.

Under US GAAP effective 1 January 2002, SFAS No. 142, "Goodwill and Other Intangible Assets", requires that goodwill and other indefinite life assets acquired in a business combination no longer be amortised, instead, these assets must be tested for impairment at least annually. The excess fair value of net assets acquired over the purchase price (negative goodwill) shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired assets except financial assets other than investments accounted for by the equity method, assets to be disposed of by sale, deferred tax assets, prepaid assets relating to pension or other post-retirement benefit plans, and any other current assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognised as an extraordinary gain. The extraordinary gain shall be recognised in the period in which the business combination is completed unless the acquisition involves contingent consideration that, if paid or issued, would be recognised as an additional element of cost of the acquired entity.

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The effect on net (loss)/profit of significant differences between HK GAAP and US GAAP is as follows:

	<i>Note</i>	2003 \$'000	2002 \$'000
Net (loss)/profit as reported under HK GAAP		(224,718)	24,435
Adjustments:			
Recognition of revenue	(a)	–	(3,697)
Investment properties	(b)	(888)	(13)
Tax effect of reconciling items		–	591
Compensation expense of share options granted	(c)	344	(7,553)
Approximate net (loss)/profit as reported under US GAAP		(225,262)	13,763

Under US GAAP effective from 1 January 2002, goodwill is no longer amortised but is subject to annual impairment review. Hence, amortisation of goodwill of approximately \$660,000 which has been provided under HK GAAP during 2002 was reversed under US GAAP. However, as a result of the Group's impairment assessment, a provision was recorded to reduce goodwill to its estimated fair value for both HK GAAP and US GAAP. The impairment provision recorded under US GAAP was \$660,000 higher than that recorded under HK GAAP.

(Loss)/earnings per share under US GAAP			
– basic and diluted		(54.56 cents)	3.34 cents

The effect on shareholders' equity of significant differences between HK GAAP and US GAAP is as follows:

	<i>Note</i>	2003 \$'000	2002 \$'000
Shareholders' equity as reported under HK GAAP		2,253,030	2,468,311
Adjustments:			
Accumulated depreciation on investment properties	(b)	(520)	368
Revaluation reserve	(b)	(7,700)	–
Shareholders' equity as reported under US GAAP		2,244,810	2,468,679