

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' equity 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 recognised for future tax consequences attributable to differences between the accounts' carrying amounts of existing assets and liabilities, and their respective tax bases and tax credit carryforwards using enacted tax rates in effect for the year in which the differences are expected to be recovered or settled. A valuation allowance is recorded to reduce the carrying amount of the deferred tax asset unless it is more likely than not that such asset will be realised.

- (b) Under HK GAAP, connection fee revenue is recognised when received upon completion of activation services. Under US GAAP, connection fee of the mobile services, net of the direct incremental costs incurred, is deferred and recognised over the estimated customer service period, which is estimated based on the expected stabilised churn rate. Connected fee revenue amounted to HK\$16,319,000, of which HK\$10,390,000 was deferred as at 31st December, 2001.

- (c) 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, intrinsic value of stock options issued to employees has been used in the computation of the compensation cost for outstanding share options granted to the Group's employees. Accordingly, deferred compensation of HK\$10,254,000 was recognised on 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 period. Deferred compensation of HK\$681,000 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 costs charged to the consolidated profit and loss account and credited to the deferred compensation for the years ended 31st December, 2001 and 2000 were HK\$3,800,000 and HK\$3,752,000 respectively 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,		
	2001 US\$'000 <sup>#</sup>	2001 HK\$'000	2000 HK\$'000
Loss for the year as reported under HK GAAP	(27,154)	(211,748)	(466,568)
US GAAP adjustments:			
Deferred tax on accelerated depreciation allowances	(3,137)	(24,459)	(795)
Deferred tax assets on tax loss and others	3,137	24,459	795
Amortisation of net connection fee	(1,332)	(10,390)	—
Compensation cost in respect of amortisation of deferred compensation for share options	<u>(487)</u>	<u>(3,800)</u>	<u>(3,752)</u>
Loss for the year under US GAAP	<u>(28,973)</u>	<u>(225,938)</u>	<u>(470,320)</u>
Basic loss per share under US GAAP	<u>(1.0 cents)</u>	<u>(7.6 cents)</u>	<u>(16.5 cents)</u>
Basic loss per ADS under US GAAP *	<u>(US\$0.3)</u>	<u>(HK\$2.3)</u>	<u>(HK\$5.0)</u>

\* One ADS is equivalent to 30 shares.

# An exchange rate of US\$1 = HK\$7.798 has been used to translate Hong Kong dollars to U.S. dollars. Such translations are for convenience only and should not be construed as representations that Hong Kong dollars amounts could be converted into U.S. dollars at that or any other rate.

The following table summarises the effect on shareholders' equity of the differences between HK GAAP and US GAAP.

	2001 US\$'000 <sup>#</sup>	As at 31st December, 2001 HK\$'000	2000 HK\$'000
Shareholders' equity as reported under HK GAAP	101,051	787,996	999,744
US GAAP adjustments:			
Deferred tax liabilities	(14,511)	(113,160)	(137,619)
Deferred tax assets	61,687	481,038	466,000
Valuation allowance	(47,176)	(367,878)	(328,381)
Deferred net connection fees	(1,332)	(10,390)	—
Additional paid-in-capital in respect of deferred compensation for share options	1,227	9,573	9,896
Deferred compensation not yet amortised for share options	(259)	(2,021)	(6,144)
Compensation cost in respect of amortisation of deferred compensation for share options	<u>(968)</u>	<u>(7,552)</u>	<u>(3,752)</u>
Shareholders' equity under US GAAP	<u>99,719</u>	<u>777,606</u>	<u>999,744</u>

<sup>#</sup> An exchange rate of US\$1 = HK\$7.798 has been used to translate Hong Kong dollars to U.S. dollars. Such translations are for convenience only and should not be construed as representations that Hong Kong dollars amounts could be converted into U.S. dollars at that or any other rate.