

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 both HK GAAP and 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.

Under HK GAAP, deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The unrecognised deferred tax asset is disclosed in the note to the accounts. Under US GAAP, 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. Connection fee revenue for 2002 and 2001 amounted to HK\$16,254,000 and HK\$16,319,000, respectively, of which HK\$10,788,000 and HK\$10,390,000 was deferred at 31st December 2002 and 2001 respectively. Connection fee revenue of HK\$8,910,000 deferred in 2001 has been credited to the consolidated profit and loss account during 2002.
- (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 schemes.

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\$2,400,000 for the options forfeited is reversed to shareholders' equity. No compensation is recognised for options which are granted with an exercise price equal to or greater than the fair market value of the Company's shares at the grant date. For the year ended 31st December 2002, write-back of compensation costs of HK\$111,000 were credited to the consolidated profit and loss account and debited to the deferred compensation. In 2001, compensation costs charged to consolidated profit and loss account and credited to the deferred compensation were HK\$3,800,000 in respect of amortisation of the deferred compensation.

- (d) Under HK GAAP, the HK\$250,000,000 which represents the annual fees for the first five years of the 3G Licence term is recorded as a prepayment with the licence fees charge prior to the launch of the 3G services being included in fixed assets. Depreciation of the fixed assets will be provided from the commencement of 3G services over the shorter of the remaining life of the 3G Licence or the estimated useful lives of the fixed assets.

Under US GAAP, the amount paid for the 3G Licence fees is classified as an intangible asset which will be amortised commencing upon the launch of the 3G services over the remaining 3G Licence period or the estimated useful lives of the related 3G network assets, whichever is the shorter. The intangible asset is reviewed for impairment.

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		
	2002 US\$'000 [#]	2002 HK\$'000	2001 HK\$'000
Loss for the year as reported under HK GAAP	(15,036)	(117,264)	(211,748)
US GAAP adjustments:			
Deferred tax on accelerated depreciation allowances	1,304	10,169	24,459
Deferred tax assets on tax loss and others	(1,304)	(10,169)	(24,459)
Amortisation of net connection fees	(241)	(1,878)	(10,390)
Write-back/(charge) of compensation cost in respect of amortisation of deferred compensation for share options	<u>14</u>	<u>111</u>	<u>(3,800)</u>
Loss for the year under US GAAP	<u>(15,263)</u>	<u>(119,031)</u>	<u>(225,938)</u>
Basic loss per share under US GAAP	<u>(0.5 cent)</u>	<u>(4.0 cents)</u>	<u>(7.6 cents)</u>
Basic loss per ADS under US GAAP*	<u>(US\$0.5)</u>	<u>(HK\$4.0)</u>	<u>(HK\$7.6)</u>

* The ADS to share ratio was changed from 1:30 to 1:100 in July 2002. The comparative figure of 2001 has been restated to conform with 2002 presentation.

[#] An exchange rate of US\$1 = HK\$7.7988 has been used to translate HK\$ to US\$. Such translations are for convenience only and should not be construed as representations that HK\$ amounts could be converted into US\$ at that or any other rate.

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

	As at December 31		
	2002 US\$'000 [#]	2002 HK\$'000	2001 HK\$'000
Shareholders' equity as reported under HK GAAP	86,005	670,732	787,996
US GAAP adjustments:			
Deferred tax liabilities	(13,206)	(102,991)	(113,160)
Deferred tax assets	61,336	478,349	481,038
Valuation allowance	(48,130)	(375,358)	(367,878)
Deferred net connection fees	(241)	(1,878)	(10,390)
Share premium in respect of deferred compensation for share options	1,007	7,854	9,573
Deferred compensation not yet amortised for share options	(53)	(413)	(2,021)
Compensation cost in respect of amortisation of deferred compensation for share options	<u>(954)</u>	<u>(7,441)</u>	<u>(7,552)</u>
Shareholders' equity under US GAAP	<u>85,764</u>	<u>668,854</u>	<u>777,606</u>

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