

The Group's accounts 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 profit 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, a deferred 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.

No deferred tax assets are recognised under HK GAAP, while a valuation allowance is set against the deferred tax assets under US GAAP, the net effect of which causes no impact to the financial statements of the Group presented under US GAAP.

- (b) Under HK GAAP, connection fee revenue is recognised when received upon completion of activation services. Under US GAAP, connection fees for mobile services, net of the direct incremental costs incurred, are deferred and recognised over the estimated customer service period, which are estimated based on the expected stabilised churn rate. Connection fee revenue for 2004 and 2003 amounted to HK\$1,200 and HK\$411,000, respectively, of which HK\$800 and HK\$175,000 were deferred at 31st December 2004 and 2003 respectively. Connection fee revenue of HK\$1,896,000 and HK\$136,000 deferred in 2002 and 2003, respectively, have been credited to the consolidated profit and loss account during 2004.
- (c) Under HK GAAP, no compensation cost to employees is required to be recognised in respect of the grant of share options. Proceeds from issues 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, the 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\$4,001,000 for the options forfeited is 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. For the year ended 31st December 2004 and 2003, write-back of compensation costs of HK\$40,000 and HK\$1,188,000, respectively, were credited to the consolidated profit and loss account and debited to deferred compensation.

- (d) Under HK GAAP, the payment of HK\$250,000,000 made in 2001, 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. The 3G Licence fees, together with the fixed assets, are evaluated for impairments when events occur that might affect its value.

Under US GAAP, licence fee payments being the upfront amount referred to above and the discounted value of the fixed annual fees to be paid over the licence period, and along with certain other direct costs incurred prior to the date the asset is ready for its intended use are capitalised and classified as an intangible asset. Capitalised licence fees will be amortised from the date of launch of the 3G services over the remaining 3G Licence period. The impute interest on the same is charged to the profit and loss account. The impairment review for the licences first is based on comparison of the future undiscounted cash flows expected to be generated from continual use and ultimate disposition of the licences with their book value. If these cash flows are not sufficient, an impairment charge is recorded to reduce the excess of the licence carrying cost over the estimated discounted future cash flows.

There is no impact of this difference under HK GAAP and US GAAP to the consolidated profit and loss accounts for the year ended 31st December 2004 and 2003 since depreciation/amortisation will only start when the 3G network is available/ready for use.



The following table summarises the effect on profit of the differences between HK GAAP and US GAAP.

	For the year ended 31st December		
	2004	2004	2003
	US\$'000[#]	HK\$'000	HK\$'000
Profit for the year as reported under HK GAAP	713	5,544	27,172
US GAAP adjustments:			
Deferred tax on accelerated depreciation allowances	(3,165)	(24,602)	(12,581)
Deferred tax assets in respect of tax losses and others	3,165	24,602	12,581
Amortisation of net connection fees	261	2,032	10,145
Write-back of compensation cost in respect of amortisation of deferred compensation for share options	5	40	1,188
Profit for the year under US GAAP	979	7,616	38,505
Basic profit per share under US GAAP	0.03 cents	0.3 cents	1.3 cents
Basic profit per ADS under US GAAP*	US\$0.03	HK\$0.3	HK\$1.3

* One ADS is equivalent to 100 shares.

An exchange rate of US\$1 = HK\$7.7723 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 of 31st December		
	2004 US\$'000[#]	2004 HK\$'000	2003 HK\$'000
Shareholders' equity as reported under HK GAAP	90,507	703,448	697,904
US GAAP adjustments:			
Deferred tax non-current assets	51,078	396,991	399,821
Valuation allowance	(51,078)	(396,991)	(399,821)
Deferred net connection fees	(12)	(91)	(2,123)
Share premium in respect of deferred compensation for share options	799	6,213	6,253
Compensation cost in respect of amortisation of deferred compensation for share options	(799)	(6,213)	(6,253)
Intangible assets — licence	69,050	536,675	—
Liability for licence	(68,507)	(532,460)	—
Fixed assets	(543)	(4,215)	—
Shareholders' equity under US GAAP	90,495	703,357	695,781

[#] An exchange rate of US\$1 = HK\$7.7723 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.