

## 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 information below has not been subjected to independent audit or review, and has not presented fully the disclosures in accordance with all applicable financial accounting standards under US GAAP. Full compliance with all applicable US GAAP disclosure requirements will be presented in Form 20-F to be filed with the United States – Securities and Exchange Commission.

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

### (a) 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 range from 44 to 46 years. The gross historical cost of properties held by the Group and jointly controlled entity subject to depreciation under US GAAP which are not depreciated under HK GAAP at 31 December 2004 amounted to \$3,821,000 (2003: \$3,821,000) and \$140,000,000 (2003: \$140,000,000), respectively.

In the US GAAP reconciliation of net loss for the year, the adjustments represent the reversal of revaluation gain in respect of the Group's properties of \$78,000 (2003: revaluation loss of \$70,000), and the depreciation in respect of the properties held by the Group amounting \$84,000 (2003: \$83,000) and the Group's proportionate share of depreciation in respect of the property held by jointly controlled entity amounting \$1,750,000 (2003: \$875,000). In the US GAAP reconciliation of shareholders' equity at 31 December 2004, the adjustments represent the reversal of revaluation gain in respect of the investment properties of the Group of \$78,000 (2003: revaluation loss of \$70,000) and the Group's proportionate share of revaluation gain in respect of the property held by its jointly controlled entity \$5,500,000 (2003: \$7,700,000), and the additional accumulated depreciation charged on the Group's properties and proportionate share of the jointly controlled entity's properties under US GAAP amounting \$1,288,000 (2003: \$1,204,000) and \$2,625,000 (2003: \$875,000), respectively.

(Expressed in Hong Kong dollars)

**(b) 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 have resigned and their share options are cancelled prior to vesting, adjustment is made to reverse any previous years’ amortised compensation expenses of those employees’ options under US GAAP.

In the US GAAP reconciliation of shareholders’ equity at 31 December 2004, the adjustments represent compensation expenses of \$11,284,000 (2003: \$11,284,000) charged to retained earnings, exercise of share options of \$73,000 (2003: \$73,000) and \$719,000 (2003: \$719,000) charged to share capital and share premium, respectively and the share options outstanding included in shareholders’ equity is \$10,492,000 (2003: \$10,492,000).

**(c) Impairment of long-lived assets**

The Group periodically reviews the carrying amount of the assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Under HK GAAP, the estimated future cash flows are discounted at a discount rate when assessing the recoverable amount of the asset.

Under US GAAP, in accordance with SFAS 144 “Accounting for the Impairment or Disposal of Long-Lived Assets”, recoverability of the assets is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognised is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets.

Given that the undiscounted cash flows expected to be generated by the asset exceed the carrying amount of the asset subject to impairment loss provision under HK GAAP, the asset is not considered impaired under US GAAP. Accordingly, the US GAAP adjustment represents the reversal of impairment loss attributable to the Group in respect of property, plant and equipment \$1,080,000 (2003: \$nil). The loss attributable to the minority interest is \$720,000 (2003: \$nil).

## SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN HONG KONG AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (Continued)

(Expressed in Hong Kong dollars)

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

	<i>Note</i>	2004 \$'000	2003 \$'000
Net loss as reported under HK GAAP		(57,757)	(224,718)
Adjustments:			
Investment properties	(a)	(1,912)	(888)
Compensation expense of share options granted	(b)	–	344
Impairment of long-lived assets	(c)	1,080	–
Approximate net loss as reported under US GAAP		(58,589)	(225,262)
Loss per share under US GAAP – basic and diluted		(14.18 cents)	(54.56 cents)

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

	<i>Note</i>	2004 \$'000	2003 \$'000
Shareholders' equity as reported under HK GAAP		2,193,153	2,253,030
Adjustments:			
Accumulated depreciation on investment properties	(a)	(2,432)	(520)
Revaluation reserve	(a)	(5,500)	(7,700)
Property, plant and equipment	(c)	1,080	–
Shareholders' equity as reported under US GAAP		2,186,301	2,244,810