The Group's accounts are prepared in accordance with generally accepted accounting principles applicable in Hong Kong (HKGAAP), which differ in certain significant respects from accounting principles generally accepted in the United States (USGAAP). Differences between HKGAAP and USGAAP which have significant effects on the (loss)/profit attributable to shareholders (net (loss)/income) and shareholders' funds (shareholders' equity) of the Group are set out below. The USGAAP reconciliation presented below is included as supplemental information, does not form part of the audited consolidated accounts prepared under HKGAAP and does not include differences related to classification, display and disclosures:

| | Note | 2005<br>HK$'000 | 2004<br>HK$'000 | 2003<br>HK$'000<br>Restated<br>(Note) |
|---|---|---|---|---|
| **(Loss)/profit attributable to shareholders (net (loss)/income)** | | | | |
| As reported under HKGAAP | | **(206,352)** | 49,550 | 257,743 |
| USGAAP adjustments: | | | | |
| – Compensation benefit cost associated with share options | (a) | **389** | 270 | 2,731 |
| – Reversal of amortisation of goodwill (acquired after 30 June 2001) | (b) | **1,065** | 1,065 | 1,065 |
| – Fair value of interest rate swap | (e) | **1,890** | 680 | – |
| – Fair value of foreign forward exchange contracts | (e) | **4,039** | – | – |
| (Loss)/profit attributable to shareholders (net (loss)/income) under USGAAP | | **(198,969)** | 51,565 | 261,539 |
| (Loss)/profit from continuing operations (add/(less) taxation 2005: HK$6,725,000; 2004: HK$(2,043,000); 2003: HK$(17,857,000)) | | **(198,969)** | 51,565 | 264,151 |
| Profit from discontinued operations (less taxation: 2005: Nil, 2004: Nil, 2003: Nil) | (d) | **–** | – | 83 |
| Loss arising from disposal of discontinued operations | (d) | **–** | – | (2,695) |
| (Loss)/profit attributable to shareholders (net (loss)/income) under USGAAP | | **(198,969)** | 51,565 | 261,539 |

Note: Restatements were made in order to reflect retrospective adjustments of deferred taxation under the requirements of revised SSAP 12, "Income taxes".

| | Note | 2005 HK$'000 | 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|---|---|
| (Loss)/earnings per share under USGAAP | | | | |
| Basic: | | | | |
| – Continuing operations | | **(32.4) cents** | 8.5 cents | 47.8 cents |
| – Discontinued operations | (d) | **–** | – | (0.5) cents |
| Total | | **(32.4) cents** | 8.5 cents | 47.3 cents |
| Diluted: | | | | |
| – Continuing operations | | **(32.4) cents** | 8.4 cents | 42.9 cents |
| – Discontinued operations | (d) | **–** | – | (0.4) cents |
| Total | | **(32.4) cents** | 8.4 cents | 42.5 cents |

For the year ended 31 August 2005, the number of shares used in the calculation of diluted loss per share is equal to the number of shares for basic loss per share as the incremental effect of share options would be anti-dilutive in a loss-making year.

| | Note | 2005 HK$'000 | 2004 HK$'000 |
|---|---|---|---|
| **Shareholders' funds (shareholders' equity)** | | | |
| As stated under HKGAAP | | **970,633** | 1,175,698 |
| USGAAP adjustments: | | | |
| – Goodwill | (b) | **5,092** | 5,092 |
| – Accumulated amortisation of goodwill | (b) | **(3,735)** | (3,735) |
| – Reversal of amortisation of goodwill | (b) | **4,260** | 3,195 |
| – Fair value of interest rate swap | (e) | **2,570** | 680 |
| – Fair value of forward foreign exchange contracts | (e) | **4,039** | – |
| Shareholders' funds (shareholders' equity) under USGAAP | | **982,859** | 1,180,930 |

Notes:

**(a) Compensation cost for share options**

Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations have been applied in the computation of the compensation cost for share options granted to the Group's employees.

Under HKGAAP, no staff compensation cost for staff 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 at the time of exercise of the options and there is no effect on the results of the Company in connection with any share option schemes.

On 19 September 1997, the Company issued 1,500,000 options to certain executive directors of the Group at an exercise price fixed at HK$1.20. The difference of HK$0.30 per share between the exercise price of HK$1.20 and the market value of the shares on 19 September 1997 of HK$1.50 was being amortised to the profit and loss account over the vesting period of the options of three years up to 18 September 2000. Pursuant to a board resolution passed on 20 October 2000, the options were cancelled and on the same date, 1,500,000 options were issued to the same executive directors at an exercise price fixed at HK$0.58 per share. Due to this repricing arrangement, the 1,500,000 options have been accounted for as variable options since that date in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation", an interpretation of APB 25. Compensation expense is recognised based on the difference between the exercise price of HK$0.58 and the Company's share price at the date on which they are exercised or at each balance sheet date if they are still outstanding.

Pursuant to a board resolution passed on 20 October 2000, 20,908,000 options out of 21,030,000 options granted to certain employees including three executive directors on 2 June 2000 at an exercise price of HK$1.50 were cancelled. On the same date, 20,908,000 new options were issued to the same employees including the three executive directors at an exercise price fixed at HK$0.58. Because of this repricing arrangement, these options have been accounted for as variable options and compensation expense is recognised based on the difference between the exercise price of each balance sheet date if they are still outstanding and the Company's share price at the date on which they are exercised. Such compensation expense is being amortised to the profit and loss account over the vesting period of the options. All options were fully vested as of 31 August 2003, 2004 and 2005. A charge was recorded in 2003, 2004 and 2005 in calculating the final cost amount associated with options that were exercised during the year.

(b) Goodwill

Prior to 1 September 2001, under HKGAAP the Group charged goodwill on acquisition of a business, which represents the excess of the cost of investment over the fair value ascribed to the identifiable net underlying assets acquired, against available reserves. In accordance with the change in accounting standards in Hong Kong, goodwill on acquisitions occurring on or after 1 September 2001 is shown separately on the consolidated balance sheet and is amortised using the straight-line method over its estimated useful life (see note 1(c) of the notes to the accounts). Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a period of 5 years. The Group has taken advantage of the transitional provisions of SSAP 30 "Business combinations" and goodwill previously written off against reserves has not been restated. Where an indication of impairment exists, the carrying amount of goodwill, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount with the charges being recorded in the Group's profit and loss accounts.

Under USGAAP, goodwill recognised on the acquisition of a business prior to 30 June 2001 was amortised to the profit and loss account over the estimated useful life, but not to exceed 40 years. In June 2001, FASB issued the Statement of Financial Accounting Standard ("SFAS") No. 142 "Goodwill and Other Intangible Assets" which was effective for fiscal years beginning after 15 December 2001. In connection with the adoption of this standard in fiscal 2003 under USGAAP, the Group ceased amortising goodwill recognised on business combinations initiated prior to 30 June 2001 and performed a transitional goodwill impairment assessment. Goodwill recognised on business combinations initiated after 30 June 2001, is not amortised under SFAS No. 142 and is required to be tested annually for impairment in accordance with the provisions of SFAS No. 142. The Group has performed the transitional goodwill impairment tests on the goodwill recorded prior to and after 30 June 2001 and no impairment loss was identified. The Group has also performed the impairment tests on the goodwill recorded prior to and after 30 June 2001 at the fiscal year end. No impairment loss was identified from the process for fiscal year 2005.

(c) Deferred taxes

Until 31 August 2003, under HKGAAP, deferred taxation is accounted for at the current taxation rate with respect to 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. In determining whether a liability is expected to be payable in the foreseeable future the Group assesses the effect of its capital expenditures and other plans. If these plans indicate that sufficient accelerated depreciation allowances will be available to offset the effect of the reversal of timing differences, a deferred tax liability is not established for such timing differences, in accordance with the requirements of HKGAAP.

With effect from 1 September 2003, in order to comply with SSAP 12 (revised) issued by the HKICPA, the Group adopted a new accounting policy for deferred tax as follow:

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The new accounting policy has been adopted in fiscal year 2004 retrospectively.

As a result of the adoption of SSAP 12 (revised), there are no longer any differences arising from the recognition of deferred tax under HK GAAP (based on the restated financial information) and US GAAP.

Under USGAAP, 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 determined based on the temporary differences between the financial reporting basis and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Future tax benefits in respect of tax losses carry forward are also required to be recognised as deferred tax assets. A valuation allowance is required to be established for such assets if it is more likely than not that the Group will not be able to realise such benefits in the future.

(d) Discontinued operations

The discontinued operations of the Group for fiscal year 2003 included the operating profit of approximately HK$83,000 of the subsidiary operating in Japan. Under HKGAAP, presentation of continuing and discontinued operations is not required to be disclosed on the face of the profit and loss account, while under USGAAP, profit or loss from discontinued operations would be shown on a separate line in the profit and loss statement below income from continuing operations.

### (e) Derivative instruments

Derivative instruments, which include interest rate swap arrangement and forward foreign exchange contracts, are entered into for the purpose of managing interest rates fluctuations and foreign currency exposures. In connection with the drawdown of the long-term bank loan of HK$100 million in fiscal year 2004, the Group entered into an interest rate swap agreement to hedge the impact of fluctuations in interest rates. As disclosed in note 25(a), the interest rate swap agreement remained outstanding after the full repayment of the long-term bank loan during fiscal year 2005. The Group also enters into a number of forward foreign exchange contracts to manage its foreign currency risk relating to the payment of services and goods for a subsidiary located in the PRC.

Under HK GAAP, where a non-speculative forward contract is used as a hedge of a net monetary asset or liability the gain or loss on the contract is credited or charged to the profit and loss account and the discount or premium is either amortised over the period of the contract or credited or charged to the profit and loss account. Where a non-speculative forward contract is used as a hedge of a firm commitment no gain or loss is recognised during the commitment period. At the end of that period any gain or loss will be added to, or deducted from, the amount of the relevant transaction. The discount or premium is either amortised over the period of the contract or deferred with the gain or loss. Where a forward contract is speculative the gain or loss is credited or charged to the profit and loss account. As a result, the Group does not recognise the interest rate swap or forward foreign exchange contracts at fair value and does not account for the gains or losses relating to the fair value changes in these derivatives. Interest income or expenses arising from the interest rate swap contracts are netted of against the related interest income or expenses applicable to the on-balance sheet items.

Under USGAAP, the Group accounted for its derivatives under SFAS No. 133 "Accounting for Derivative Instruments and Hedge Activities", as amended by SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities", which requires all derivative instruments be recognised on the balance sheet at fair value. The accounting for changes in fair value depends on whether the derivative instrument qualifies as a hedge. Gains or losses on a derivative instrument designated and qualifying as a fair value hedge as well as the offsetting loss or gain on the hedged item attributable to the hedged risk shall be recognised currently in profit and loss account. The effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedge shall be reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged forecasted transaction impacts earnings. The ineffective portion of gain or loss on the derivative instrument, if any, shall be recognised currently in earnings. For derivative that does not qualify as a hedge, the gain or loss reflecting changes in fair value is recognised in earnings.

As of 31 August 2005, the Group did not have any derivatives that qualify as hedges.

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