asset, undiscounted and without interest, plus the asset’s residual value on disposal. Where the recoverable amount of fixed and other long-lived assets is less than their carrying value, an impairment loss is recognized to write the assets down to their fair value, which is based on the undiscounted estimated cash flows.

Estimation of cash flows arising from future use of the asset requires careful analysis regarding what we expect to recover from its future use. This includes consideration of our target market share and customer base, market competition, future changes to our cost structure and technological change. In addition, the residual value of the asset on disposal requires judgment, as the estimated fair value of the asset at the time of disposal could change in response to market conditions and changes in expected use of the asset prior to disposal. Changes in the estimate of cash flows arising from expected future use of the asset or its residual value on disposal – based on changes in market conditions, changes in the use of assets, management’s plan, foreseeable technological changes or otherwise – could significantly change the calculation of the fair value or recoverable amount of the asset and the resulting impairment loss. This in turn could significantly affect the results of our operations.

Accounts Receivable

Under Hong Kong GAAP and U.S. GAAP, provision is made against accounts receivable to the extent they are considered to be doubtful. This provision requires judgment regarding the collectibility of certain receivables both as they are incurred and as they age. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the statement of operations. Changes in the collectibility of accounts receivable for which provisions are not made could significantly change the calculation of such provision and the results of our operations.

Deferred Taxation

Hong Kong GAAP. 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 recoverable in the foreseeable future. In determining whether a liability or asset is expected to be payable or recoverable in the foreseeable future, we assess the effect of our capital expenditures and other plans, such as the existing network capacity, technological changes, future market trends and projected fixed network coverage.

U.S. GAAP. We are required to recognize deferred tax assets and liabilities for the expected future tax consequences of all events that have been included in the financial statements 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 loss carry forwards are also required to be recognized in full. We must establish a valuation allowance for such assets if we determine it is more likely than not that we will not be able to utilize such benefits in the future.

The recording of certain deferred tax assets requires judgment regarding the results of future operations, including the assumption that there will be sufficient future operations to allow us to utilize the related deferred tax asset. Any changes in the estimate of future operations could change the recognition of such assets, which could significantly affect the results of our operations.

Carrying value of investment and goodwill

We assess the carrying value of our investments in subsidiaries, including acquired goodwill, for impairment at least bi-annually based on their recoverable amount. Our assessments generally include methodology of discounted cash flow analysis, and review of comparable entities. This methodology sometimes relies on factors such as forecasts of future performance and long-term growth rates of the investee, and selection of discount rate. If these forecasts and assumptions prove to be incorrect or circumstances change, we may be required to write down our investments.

Based on our most recent assessment of recoverable amount we believe that as at August 31, 2002 our goodwill is recoverable at the amounts at which they are stated in our financial statements.

U.S. GAAP Reconciliation

Our financial statements are prepared in accordance with Hong Kong GAAP, which differs in certain material respects from U.S. GAAP. The following tables provide a comparison of our net income and shareholders' equity in accordance with Hong Kong GAAP and U.S. GAAP.

	Year ended August 31,		
	2000	2001	2002
	HK$'000	HK$'000	HK$'000
Net income			
As stated under H.K. GAAP	70,001	53,927	91,129
U.S. GAAP adjustments:			
Compensation cost for share options	(8,460)	(184)	(21,586)
Amortization of goodwill (acquired prior to June 30, 2001)	(1,018)	(1,019)	(1,019)
Reversal of amortization of goodwill (acquired after June 30, 2001)	—	—	1,065
Deferred advertising and promotional expenses	6,753	—	—
Deferred tax on above U.S. GAAP adjustments	(1,080)	—	—
Deferred tax on accelerated depreciation	(46)	1,242	(624)
Net income under U.S. GAAP	66,150	53,966	68,965
Profit from continuing operations (less taxation 2002: HK$14,566,000, 2001: HK$18,775,000, 2000: HK$1,202,000)	100,002	64,934	68,965
Loss from discontinued operations (less taxation 2002: HK$ Nil, 2001: HK$ Nil, 2000: HK$ Nil)	(33,852)	(10,968)	—
Net income under U.S. GAAP	66,150	53,966	68,965

	Year ended August 31,		
	2000	2001	2002
Earnings/(loss) per share under U.S. GAAP			
Basic:			
Continuing operations	21.3 cents	13.2 cents	13.9 cents
Discontinued operations	(7.2) cents	(2.2) cents	—
Total	14.1 cents	11.0 cents	13.9 cents
Diluted:			
Continuing operations	20.9 cents	13.1 cents	12.2 cents
Discontinued operations	(7.1) cents	(2.2) cents	—
Total	13.8 cents	10.9 cents	12.2 cents

	Year ended August 31,		
	2000	2001	2002
	HK$'000	HK$'000	HK$'000
Total shareholders' equity			
As stated under H.K. GAAP	753,424	805,306	910,183
U.S. GAAP adjustments:			
Goodwill	5,092	5,092	5,092
Accumulated amortization of goodwill	(1,697)	(2,716)	(3,735)
Reversal of amortization of goodwill	—	—	1,065
Deferred tax liabilities	(5,813)	(4,571)	(5,195)
Total shareholders' equity under U.S. GAAP	751,006	803,111	907,410

The principal reasons for the difference between net income as reported under Hong Kong GAAP and U.S. GAAP for the year ended August 31, 2002 is the recording of compensation cost of share options issued to employees in accordance with the requirements of U.S. GAAP, the capitalization and amortization of goodwill under U.S. GAAP, and the full provision of tax liabilities under U.S. GAAP.

Under Hong Kong GAAP, no compensation cost is required to be recognized in respect of the grant of stock options to employees and executive directors. Under U.S. GAAP, compensation expense is required to be measured either in accordance with the intrinsic value method prescribed by APB Opinion No. 25 and related interpretations or the fair value method prescribed by Statement of Financial Accounting Standards No. 123. We apply the intrinsic value method prescribed by APB Opinion No. 25 and related interpretations and disclose in our consolidated financial statements the pro forma effect that the adoption of the fair value method would have on our net income and earnings per share. Some of our options have been granted at an exercise price that is less than the market value on the date of grant. The Company also cancelled and reissued certain options granted during the year ended August 31, 2001. The reissued options are required to be accounted for in accordance with the requirements of Interpretation 44 of the Financial Accounting Standards Board (FIN 44) as variable options.

The compensation cost for stock options under U.S. GAAP represents the difference between the exercise price of the options 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. This amount is amortized over the vesting period of the options. The charge for compensation expense in the year ended August 31, 2002 primarily relates to the variable options.

Goodwill and accumulated amortization comprises goodwill arising on the acquisition in 1999 of the 963673 Ontario Limited group of companies. Under Hong Kong GAAP, such goodwill was previously charged against available reserves, whereas under U.S. GAAP, it was required to be recorded as an asset on the balance sheet and amortized over its estimated useful life of five years. In accordance with the change in accounting standards of Hong Kong GAAP, goodwill on acquisitions occurring on or after September 1, 2001 is now shown separately on the consolidated balance sheet and is amortized using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Company to expand its product or geographical market coverage is amortized over a period of not more than 20 years. The Company has taken advantage of the transitional provisions of SSAP 30 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. Effective from fiscal year 2003, under U.S. GAAP, goodwill will no longer be amortized and will be subject to annual impairment tests.

Under Hong Kong GAAP, 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 financial statements 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 Company assesses the effect of its capital expenditures and other plans. If these plans indicate that sufficient accelerated tax 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 Hong Kong GAAP, we have determined that on August 31, 2002, a provision was not required with respect to deferred tax liabilities amounting to HK$5.2 million. The corresponding amounts on August 31, 2001 and August 31, 2000 were HK$4.6 million and HK$5.8 million, respectively. Under U.S. GAAP, deferred taxation for such liabilities is required to be provided for in full.

Recent Accounting Pronouncements

The United States Financial Accounting Standards Board ("FASB") has issued certain pronouncements which are not effective with respect to the fiscal years or periods presented in the consolidated financial statements.

SFAS 141 and SFAS 142

In June 2001, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 141 ("SFAS 141"), *"Business Combinations",* and No. 142 ("SFAS 142"), *"Goodwill and Other Intangible Assets".*

SFAS 141 supersedes Accounting Principles Board Opinion ("APB") No. 16, *"Business Combinations".* The provisions of SFAS 141 (1) require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, (2) provide specific criteria for the initial recognition and measurement of intangible assets apart from goodwill, and (3) require that unamortized negative goodwill be written off immediately as an extraordinary gain instead of being deferred and amortized. SFAS 141 also requires that upon adoption of SFAS 142 the Company reclassify the carrying amounts of certain intangible assets into or out of goodwill, based on certain criteria. SFAS 142 supersedes APB 17, *"Intangible Assets"*, and is effective for fiscal years beginning after December 15, 2001.

SFAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. The provisions of SFAS 142:

- rohibit the amortization of goodwill and indefinite-lived intangible assets,
- equire that goodwill and indefinite-lived intangibles assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or indefinite-lived intangible assets may be impaired),
- equire that reporting units be identified for the purpose of assessing potential future impairments of goodwill, and
- remove the forty-year limitation on the amortization period of intangible assets that have finite lives.

The Company adopted the provisions of SFAS 142 on September 1, 2002, the beginning of fiscal 2003. In connection with the adoption of SFAS 142, the Company has identified its reporting units and the amounts of goodwill, intangible assets, other assets, and liabilities to be allocated to those reporting units.

SFAS 142 requires that goodwill be tested annually for impairment using a two-step process. The first step is to identify a potential impairment and, in transition, this step must be measured as of the beginning of the fiscal year, but a company has six months from the date of adoption to complete the first step. The Company has completed its transitional impairment tests for goodwill acquired prior to June 30, 2001 and determined that no indication of impairment exists for the carrying amount of goodwill.

The second step of the goodwill impairment test measures the amount of the impairment loss (as of the beginning of the year of adoption), if any, and must be completed by the end of the Company's fiscal year. Any impairment loss resulting from the transitional impairment tests will be reflected as the cumulative effect of a change in accounting principle in fiscal 2003. Based on the results of the six-month transitional impairment test the Company does not expect any impairment loss related to these assets for fiscal 2003.

Upon adoption of SFAS 142 the Company expects that it will no longer record HK$1,019,000 of annual amortization relating to its existing goodwill.

SFAS 144

In October 2001, the FASB issued SFAS No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which supercedes SFAS No.121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and APB No. 30 "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". This standard is effective for fiscal years beginning after December 15, 2001. It maintains the previous accounting for the impairment or disposal of long-lived assets, but also establishes more restrictive criteria that must be met to classify such an asset as "held for sale". SFAS 144 also increases the range of dispositions that qualify for reporting as discontinued operations, and changes the manner in which expected future operating losses from such operations are to be reported.

SFAS 148

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation – Transition and disclosure – an amendment of FAS 123". SFAS 148 amends FASB Statement No. 123 "Accounting for Stock-based Compensation" ("SFAS 123") to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, SFAS 148 amends APB Opinion No. 28 "Interim Financial Reporting" to require disclosure about those effects in interim financial information. SFAS 148 is effective for financial statements for fiscal years ending and for interim periods beginning after December 15, 2002.

The Company has evaluated the requirements of the above statements and believes that the adoption of these new standards would not have a material impact on its consolidated financial statements.