

Notes to the Financial Statements

For the year ended 31 December 2003

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its ordinary shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

2. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice (“SSAP”) and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below.

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2003.

The results of subsidiaries acquired and disposed of during the year are accounted for from the effective dates of acquisition or up to the effective dates of disposal respectively.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Losses attributable to minority shareholders of partly owned subsidiaries are accounted for based on the respective equity owned by the minority shareholders. Thereafter, the Group assumes all further losses.

Subsidiaries

A subsidiary is an enterprise, in which the Group or the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. Investments in subsidiaries in the Company’s balance sheet are stated at cost less accumulated impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the income statement.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method at the following rates per annum:

Leasehold improvement	Over the remaining lease term
Machinery and equipment	20% – 33%
Office equipment, furniture and fittings	20% – 33%

Assets held under finance lease are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the leases.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Investment securities

Investment securities held on a continuing basis with an identified long-term purpose are stated at cost and subject to impairment review at each reporting date to reflect any diminution in their value, which is expected to be other than temporary. The amount of provisions is recognised in the income statement in the period in which the decline occurs.

The gain or loss on disposal of investment securities is the difference between net sales proceeds and the carrying amount of the securities and is accounted for in the period in which the disposal occurs.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. 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. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

Income in respect of telecommunication services provided to customers is recognised when the services are rendered.

Other income include mainly insurance and management consulting income, which are recognised in the period when the services are rendered.

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are recognised as an expense on the straight-line basis over the lease terms.

Foreign currencies

Transactions in foreign currencies are translated at the approximate rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the approximate rates of exchange ruling at that date. Translation differences are included in the income statement.

On consolidation, the balance sheet of overseas subsidiaries denominated in currencies other than Hong Kong dollars is translated at the approximate rates of exchange ruling at the balance sheet date while the income statement is translated at average rates for the year. All exchange differences arising on consolidation are dealt with in the exchange reserve.

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

2. PRINCIPAL ACCOUNTING POLICIES (continued)**Taxation**

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

In prior years, deferred taxation was accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability was expected to be payable in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

The adoption of revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively but has no material effects on these financial statements. The comparatives presented have been restated to conform to the changed policy.

Retirement benefits schemes

Since December 2000, the Group, other than overseas subsidiaries, has operated Mandatory Provident Fund (“MPF”) Schemes to provide retirement benefits for its full time permanent employees in Hong Kong. The obligations for contributions to retirement benefits schemes are recognised as expenses in the income statement as incurred. The assets of the schemes are held separately from those of the Group in independent trustees.

Under the MPF Schemes, both the Group and each eligible employees were required to contribute 5% of the employee’s basic monthly income, up to a maximum of HK\$1,000 (the “mandatory contributions”) and they may choose to make additional contributions (“voluntary contribution”). The Group shall make the same additional contributions if the employees choose to make a voluntary contribution up to a maximum limit of HK\$1,000.

Under the MPF Schemes, the employees are entitled to 100% of the employer’s mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity. The employees are entitled to 100% of the Group’s voluntary contributions after completion of first years’ service.

The overseas subsidiaries have also operated their pension schemes or similar arrangement for their employees in accordance with the statutory requirements prescribed by the relevant legal authorities.

As at the balance sheet date, the Group had no significant forfeited voluntary contributions which arose upon employees leaving the MPF Schemes and which are available to reduce the contributions payable by the Group in future years.

3. TURNOVER AND REVENUE

Turnover and revenue recognised by category are analysed as follows:

	Group	
	2003	2002
	HK\$’000	HK\$’000
Turnover		
Telecommunication services income	398,128	298,543
Others	4,415	18,203
	402,543	316,746
Other revenue		
Interest income	107	313
Revenue	402,650	317,059

4. DISCONTINUED OPERATION

In January 2003, the Group entered into a sale and purchase agreement with an independent third party to dispose of two subsidiaries at a consideration of HK\$1.5 million, which resulted in a net gain on disposal of HK\$532,000, after deducting the related disposal costs. The consideration of HK\$1.5 million had been settled during the year.

Upon disposal of the two subsidiaries, which were engaged in the business of provision of event management services, the corporate management services segment of the Group has been discontinued since January 2003.

The turnover, results and net cash flows of the corporate management services operation for the current and previous years, which have been included in the financial statements were as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover	–	11,420
Operating costs	–	(22,990)
Loss before taxation	–	(11,570)
Taxation	–	–
Loss from ordinary activities after taxation	–	(11,570)

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Net cash flows		
Operating activities	–	(9,304)
Investing activities	–	17
Financing activities	–	7,717
Total cash flows	–	(1,570)

The asset and liabilities of the corporate management services operation as at the balance sheet date are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Total assets	–	2,849
Total liabilities	–	(41,065)
Net liabilities	–	(38,216)

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

5. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging / (crediting):

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) Finance costs		
Finance charges on obligations under finance leases	157	1,080
(b) Other items		
Auditors' remuneration	1,214	1,061
Bad debts written off	3,901	6,266
Cost of inventories and services provided	235,128	226,986
Depreciation of property, plant and equipment	44,403	46,922
(Gain) / Loss on disposal of other investments	(13)	13,865
(Gain) / Loss on disposal of property, plant and equipment	(2)	1,630
Impairment loss on property, plant and equipment included in other operating expenses	–	210
Operating lease charges on premises	1,544	2,619
Gain on disposal of subsidiaries	(1,245)	–
Provision for doubtful debts	269	1,238
Staff costs, including directors' emoluments:		
Salaries, allowances and gratuities	87,540	104,600
Retirement benefits schemes contributions	2,918	2,983

6. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	200	200
Salaries, other emoluments, gratuities and other benefits in kind	8,103	6,842
Retirement benefits schemes contributions	72	70
	8,375	7,112

Included in the directors' remuneration were fees of HK\$200,000 (2002: HK\$200,000) paid to the independent non-executive directors during the year.

The remuneration of directors was within the following bands:

<i>HK\$</i>	Number of directors	
	2003	2002
Nil to 1,000,000	3	3
1,500,001 – 2,000,000	3	3
2,000,001 – 2,500,000	–	1
3,000,001 – 3,500,000	1	–
	7	7

No director waived or agreed to waive any remuneration during the year.

Individuals with highest emoluments

Of the six (2002: six) individuals with the highest emoluments, four (2002: four) were directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other two (2002: two) individuals were as follows:

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, gratuities and other emoluments	3,493	3,486
Retirement benefit schemes contributions	40	5
Non-contractual payments for loss of office paid by a subsidiary	356	–
	3,889	3,491

<i>HK\$</i>	Number of individuals	
	2003	2002
1,500,001 – 2,000,000	1	2
2,000,001 – 2,500,000	1	–
	2	2

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

7. TAXATION CREDIT

Hong Kong Profits Tax has not been provided as the Group incurred a loss for taxation purposes for the year.

The taxation credit recognised during the year represents deferred tax asset relating to the origination of temporary differences as analysed below:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Types of temporary differences:		
Depreciation allowances	467	–
Tax losses	(1,467)	–
	(1,000)	–

Reconciliation of effective tax rate:

	Group	
	2003	2002
	%	%
Applicable tax rate	(18)	(18)
Non-deductible expenses	15	7
Unrecognised tax losses arising in current year	27	10
Utilisation of previously unrecognised tax losses	(20)	–
Recognition of previously unrecognised deferred tax assets	5	–
Sundries	(4)	1
Effective tax rate	5	–

The applicable tax rate is the average tax rates prevailing in the territories in which the Group operates.

8. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders includes a loss of the Company amounted to HK\$17,051,000 (2002: HK\$439,080,000) which has been dealt with in the financial statements of the Company.

9. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2003 was based on the consolidated loss attributable to shareholders of HK\$19,756,000 (2002: HK\$186,274,000) and on the weighted average number of 470,894,200 (2002: 252,549,887) ordinary shares.

Diluted loss per share is not shown because the potential ordinary shares are anti-dilutive and would decrease the loss per share.

10. EBITDA

EBITDA represents earnings before interest expenses, taxation, depreciation, amortisation, provision for diminution in value of investment securities, unrealised holding loss on other investments and the Group's share of results of associates.

11. PROPERTY, PLANT AND EQUIPMENT

Group	Machinery and equipment HK\$'000	Leasehold improvement HK\$'000	Office equipment, furniture and fittings HK\$'000	Total HK\$'000
Cost				
As at 1 January 2003	247,859	733	23,964	272,556
Additions	5,335	31	673	6,039
Disposals	(39,069)	(25)	(6,069)	(45,163)
As at 31 December 2003	214,125	739	18,568	233,432
Accumulated depreciation				
As at 1 January 2003	68,161	186	13,479	81,826
Charge for the year	39,425	334	4,644	44,403
Disposals	(38,418)	(13)	(4,064)	(42,495)
As at 31 December 2003	69,168	507	14,059	83,734
Net book value				
As at 31 December 2003	144,957	232	4,509	149,698
As at 31 December 2002	179,698	547	10,485	190,730

The net book value of the Group's property, plant and equipment includes an amount of HK\$699,000 (2002: HK\$5,537,000) in respect of assets held under finance leases.

Company	Office equipment HK\$'000
Cost	
As at 1 January 2003	1,932
Additions	65
As at 31 December 2003	1,997
Accumulated depreciation	
As at 1 January 2003	1,393
Charge for the year	390
As at 31 December 2003	1,783
Net book value	
As at 31 December 2003	214
As at 31 December 2002	539

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

12. INTERESTS IN SUBSIDIARIES

	Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	7,800	7,855
Due from subsidiaries	790,553	901,509
Less: Provisions	(631,233)	(724,800)
	<u>167,120</u>	<u>184,564</u>

Details of the principal subsidiaries at the balance sheet date are as follows:

<u>Name of subsidiary</u>	<u>Place of incorporation/ operation</u>	<u>Issued and fully paid up share capital</u>	<u>Percentage of share capital held by the Company</u>		<u>Principal activities</u>
			<i>Directly</i>	<i>Indirectly</i>	
China Portal Limited	British Virgin Islands	US\$1	–	100%	Investment holding and provision of marketing and consultancy services
Cyber Insurance Brokers Limited	Hong Kong	HK\$5,000,000	–	70%	Insurance brokerage
Cyberman Limited	British Virgin Islands	US\$1	–	100%	Asset holding
E-Force Global Limited	Hong Kong	HK\$1,000	–	100%	Asset holding
E-Force Limited	Hong Kong	HK\$2	–	100%	Provision of management and consultancy services
e-Kong Pillars Holdings Limited	British Virgin Islands	US\$1	100%	–	Investment holding
e-Kong Pillars Limited	British Virgin Islands	US\$1	–	100%	Investment holding
Global Zone Limited	British Virgin Islands	US\$1	–	100%	Provision of corporate-related services

12. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries at the balance sheet date are as follows:

<u>Name of subsidiary</u>	<u>Place of incorporation/ operation</u>	<u>Issued and fully paid up share capital</u>	<u>Percentage of share capital held by the Company</u>		<u>Principal activities</u>
			<i>Directly</i>	<i>Indirectly</i>	
speedinsure.com Limited	Hong Kong	HK\$10,000	–	70%	Provision of sales and fulfillment solution
speedinsure Global Limited	British Virgin Islands	US\$10,000	–	70%	Investment holding
Zone Asia Limited	Hong Kong	HK\$2	–	100%	Investment holding
ZONE Channel Services Limited	Hong Kong	HK\$2	–	100%	Provision of marketing and promotion services
ZONE Global Limited	British Virgin Islands	US\$1	–	100%	Investment holding
ZONE Limited	Hong Kong	HK\$2	–	100%	Provision of telecommunication services
ZONE Telecom, Inc.	United States of America	US\$10	–	100%	Provision of telecommunication services
ZONE Telecom Pte Ltd	Singapore	S\$100,000	–	100%	Provision of telecommunication services
ZONE USA, Inc.	United States of America	US\$10	–	100%	Investment holding

The above summary includes those subsidiaries of the Company which, in the opinion of the Company's directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

13. INVESTMENT SECURITIES

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
At cost less provision:		
Equity securities, unlisted	3,452	3,452

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Trade receivables	39,840	44,976	–	–
Other receivables				
Deposits, prepayments and other debtors	7,649	6,932	1,220	2,168
	47,489	51,908	1,220	2,168

The Group's credit terms on credit sales mainly range from 30 days to 90 days. Included in trade and other receivables are trade debtors (net of provision for bad and doubtful debts) with the following ageing analysis.

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Current	39,040	43,402
1 to 3 months	775	432
More than 3 months but less than 12 months	25	1,142
	39,840	44,976

15. PLEDGED DEPOSITS

At the balance sheet date, the Group and the Company had pledged deposits amounting to HK\$3,305,000 (2002: HK\$7,740,000) and HK\$2,110,000 (2002: HK\$3,045,000) respectively to banks for guarantee made by the banks to certain telecommunication carriers for due payment by the Group.

16. TRADE AND OTHER PAYABLES

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	24,218	45,067	–	–
Other payables				
Accrued charges and other creditors	34,383	36,143	2,066	5,492
Due to subsidiaries	–	–	1,254	4,602
	58,601	81,210	3,320	10,094

Included in trade and other payables are trade creditors with the following ageing analysis.

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current	18,832	25,300
1 to 3 months	3,167	7,877
More than 3 months but less than 12 months	2,219	11,890
	24,218	45,067

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

17. OBLIGATIONS UNDER FINANCE LEASES

The obligations under finance leases are repayable as follows:

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	326	6,744	289	6,566
After one year but within two years	326	900	312	830
Future finance charges	652 (51)	7,644 (248)	601 -	7,396 -
Present value of lease obligations	601	7,396	601	7,396

18. ISSUED CAPITAL

	2003		2002	
	Number of shares	Amount <i>HK\$'000</i>	Number of shares	Amount <i>HK\$'000</i>
Authorised				
<i>Preference shares</i>				
As at 1 January and as at 31 December, at HK\$1 each	288,929,402	288,929	288,929,402	288,929
<i>Ordinary shares</i>				
As at 1 January, at HK\$0.01 (2002: HK\$0.02) each	12,000,000,000	120,000	6,000,000,000	120,000
Subdivision of ordinary shares	-	-	6,000,000,000	-
As at 31 December, at HK\$0.01 each	12,000,000,000	120,000	12,000,000,000	120,000
		408,929		408,929

18. ISSUED CAPITAL (continued)

	2003		2002	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Issued and fully paid				
<i>Preference shares</i>				
As at 1 January, at HK\$1 each	–	–	9,680,000	9,680
Converted to ordinary shares	–	–	(9,680,000)	(9,680)
As at 31 December, at HK\$1 each	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
<i>Ordinary shares</i>				
As at 1 January, at HK\$0.01 (2002: HK\$0.02) each	470,894,200	4,709	4,699,262,008	93,985
Converted from preference shares	–	–	9,680,000	194
Reduction of nominal value from HK\$0.02 each to HK\$0.0005 each	–	–	–	(91,824)
Consolidation of shares	–	–	(4,473,494,908)	–
Issue of ordinary shares	–	–	<u>235,447,100</u>	<u>2,354</u>
As at 31 December, at HK\$0.01 each	<u>470,894,200</u>	<u>4,709</u>	<u>470,894,200</u>	<u>4,709</u>
Total		<u>4,709</u>		<u>4,709</u>

19. SHARE OPTIONS

Company

Pursuant to the employee share option scheme of the Company (the “Old Share Option Scheme”) adopted in a special general meeting held on 25 October 1999, the directors of the Company might, at their discretion, invite eligible employees of the Group, including executive directors of the Company, to take up options to subscribe for shares in the Company under the terms and conditions stipulated therein. The Old Share Option Scheme was subsequently terminated by the Company in a special general meeting held on 28 June 2002 but the share options granted but not yet exercised thereunder would remain effective and are bound by terms therein.

On 28 June 2002, the Company adopted a new share option scheme (the “New Share Option Scheme”) to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”). Under the New Share Option Scheme, the directors of the Company might at its discretion grant share options to (i) any director, employee, consultant, customer, supplier, business introduction agent, or legal, financial or marketing adviser of or contractor to any company in the Group or any affiliate; and/or (ii) any discretionary trust the discretionary objects of which include any of the foregoing, under the terms and conditions stipulated therein. No share options have ever been granted by the Company under the New Share Option Scheme since adoption.

Notes to the Financial Statements (continued)

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19. SHARE OPTIONS (continued)

Subsidiaries of the Company

On 28 June 2002, the Company adopted a set of rules and procedures for share option schemes for its subsidiaries (the "Scheme Rules and Procedures") to comply with the new requirements of Chapter 17 of the Listing Rules. Pursuant to the Scheme Rules and Procedures, the subsidiaries might adopt their respective share options schemes in terms and conditions of the Scheme Rules and Procedures, under which the board of directors of each of the relevant subsidiaries might at its discretion grant their respective share options to (i) any director, employee, consultant, customer, supplier, business introduction agent, or legal, financial or marketing adviser of or contractor to the subsidiaries and their subsidiaries, any of their holding companies or any affiliate; and/or (ii) any discretionary trust the discretionary objects of which include any of the foregoing. No subsidiaries have ever adopted any share option schemes pursuant to the terms and conditions of the Scheme Rules and Procedures since adoption.

Summary of principal terms

A summary of principal terms of the New Share Option Scheme and Scheme Rules and Procedures is as follows:

(i) *Purpose*

The scheme is designed to enable the board to grant share options to eligible participants as (i) incentives and/or rewards in recognition or acknowledgement of the contributions that eligible participants have made and will make to the Group; and (ii) motivation to high calibre employees for high levels of performance in order to enhance long-term shareholder value.

(ii) *Maximum number of shares*

The total number of shares in respect of which share options may be granted (together with share options exercised and then outstanding) under the scheme and to be granted under any other share option schemes, shall not in aggregate exceed such number of shares representing 10% of the shares in issue as at the date of approval of the scheme unless shareholders' approval has been obtained pursuant to the scheme. As at 2 April 2004, 13,841,611 shares of the Company, representing about 2.9% of the issued share capital of the Company as at the date hereof, are available for issue under the New Share Option Scheme.

The maximum number of shares issued and which may fall to be issued upon the exercise of the share options granted under the scheme and any other share option schemes (including both exercised and outstanding share options) to each eligible participant shall not exceed 1% of the shares in issue for the time being in any 12 month period up to and including the date of grant.

(iii) *Exercise period and payment on acceptance of share options*

A share option may be exercised in accordance with the terms of the scheme at any time during a period to be determined and notified by the directors to each grantee, subject to a maximum period of 10 years from the date of grant.

A share option shall be deemed to have been granted and accepted and to have taken effect when the duplicate letter comprising acceptance of the offer of the grant of a share option duly signed by the grantee (for the New Share Option Scheme) or the acceptance of the offer of the grant of a share option duly acknowledged by the grantee in such form as the board may from time to time determine (for the Scheme Rules and Procedures) together with a remittance in favour of the Company of HK\$1.00 (or its US\$ equivalent) in consideration of the grant thereof is received by the Company on a business day not later than 28 days from the offer date.

19. SHARE OPTIONS (continued)

(iv) Basis of determining the subscription price

New Share Option Scheme

Subject to the terms of the scheme and the provisions of the Listing Rules, the subscription price in respect of any share option shall be at least the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets over the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share.

Scheme Rules and Procedures

Subject to the terms of the scheme and the provisions of the Listing Rules, the subscription price in respect of any share option shall not be less than the par value of a share provided that if the share option is intended to qualify as an incentive stock option under the tax laws of the United States, the subscription price thereof shall not be less than the fair market value of a share as detailed therein.

(v) Remaining life of the scheme

The scheme will be valid and effective, at the discretion of the board of directors, subject to a maximum period of 10 years from the date of adoption of the scheme.

Share option movements

During the year, no share options were held by the directors, chief executive or substantial shareholders of the Company, or suppliers of goods or services or other participants other than eligible employees under the Old Share Option Scheme.

Details of the share options granted to eligible employees under the Old Share Option Scheme and remained outstanding as at 31 December 2003 were as follows:

Date of grant	Exercisable period	Exercise price HK\$	Number of share options		
			As at 1 January 2003	Lapsed during the year	As at 31 December 2003
25.10.1999	25.10.2000 – 24.10.2009	1.40	1,365,000	(300,000)	1,065,000
16.11.1999	16.11.2000 – 24.10.2009	1.60	7,500	–	7,500
23.12.1999	23.12.2000 – 24.10.2009	2.00	370,000	–	370,000
03.01.2000	03.01.2001 – 24.10.2009	2.30	300,000	–	300,000
24.01.2000	21.02.2000 – 24.10.2009	2.30	600,000	(150,000)	450,000
25.01.2000	01.03.2000 – 24.10.2009	2.30	200,000	(50,000)	150,000
03.03.2000	03.04.2000 – 24.10.2009	7.60	1,520,000	(380,000)	1,140,000
03.03.2000	03.03.2001 – 24.10.2009	7.60	315,000	(300,000)	15,000
28.04.2000	28.04.2001 – 24.10.2009	3.30	491,500	(15,000)	476,500
09.08.2000	09.08.2001 – 24.10.2009	2.30	55,000	(25,000)	30,000
25.10.2000	25.10.2001 – 24.10.2009	1.20	40,000	(10,000)	30,000
16.05.2001	16.05.2001 – 01.04.2003	0.80	20,000	(20,000)	–
Total			5,284,000	(1,250,000)	4,034,000

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

20. RESERVES

Group	Share premium <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2002	1,187,241	(7)	6	–	(933,595)	253,645
Shares issued at premium upon preference shares conversion	9,486	–	–	–	–	9,486
Reduction of nominal value of shares from HK\$0.02 each to HK\$0.0005 each	–	–	91,824	–	–	91,824
Capital reorganisation	(1,196,239)	–	(91,824)	607,462	680,601	–
Shares issued at premium on rights issue	25,899	–	–	–	–	25,899
Share issuance expenses	(2,926)	–	–	–	–	(2,926)
Exchange difference on translation of foreign subsidiaries	–	7	–	–	–	7
Net loss attributable to shareholders	–	–	–	–	(186,274)	(186,274)
As at 31 December 2002	23,461	–	6	607,462	(439,268)	191,661
Net loss attributable to shareholders	–	–	–	–	(19,756)	(19,756)
As at 31 December 2003	23,461	–	6	607,462	(459,024)	171,905
Company						
As at 1 January 2002	1,187,241	–	6	–	(680,601)	506,646
Shares issued at premium upon preference share conversion	9,486	–	–	–	–	9,486
Reduction of nominal value of shares from HK\$0.02 each to HK\$0.0005 each	–	–	91,824	–	–	91,824
Capital reorganisation	(1,196,239)	–	(91,824)	607,462	680,601	–
Shares issued at premium on rights issue	25,899	–	–	–	–	25,899
Share issuance expenses	(2,926)	–	–	–	–	(2,926)
Net loss attributable to shareholders	–	–	–	–	(439,080)	(439,080)
As at 31 December 2002	23,461	–	6	607,462	(439,080)	191,849
Net loss attributable to shareholders	–	–	–	–	(17,051)	(17,051)
As at 31 December 2003	23,461	–	6	607,462	(456,131)	174,798

20. RESERVES (continued)

Contributed surplus represents the amounts transferred from share premium account as a result of the capital reorganisation undertaken by the Company in November 2002. Under the Company Act 1981 of Bermuda (as amended), contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

- (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

As at 31 December 2003, the Company had the following reserves available for distribution to shareholders:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Contributed surplus	607,462	607,462
Accumulated losses	(456,131)	(439,080)
	151,331	168,382

21. CASH GENERATED FROM / (USED IN) OPERATIONS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Loss before taxation	(20,756)	(186,274)
Interest income	(107)	(313)
Interest on obligations under finance leases	157	1,080
Depreciation	44,403	46,922
(Gain) / Loss on disposal of property, plant and equipment	(2)	1,630
Impairment loss on property, plant and equipment	-	210
Gain on disposal of subsidiaries	(1,245)	-
Unrealised holding loss on other investments	-	3,117
Provision for diminution in value of investment securities	-	27,982
(Gain) / Loss on disposal of other investments	(13)	13,865
Share of results of associates	-	(1,911)
Bad debts written off	3,901	6,266
Provision for doubtful debts	269	1,238
Waiver of amount due from associates	-	6,764
Changes in working capital:		
Trade and other receivables	(1,117)	(5,182)
Trade and other payables	(20,572)	(17,346)
Effect of exchange rate changes	-	7
Cash generated from / (used in) operations	4,918	(101,945)

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

22. DISPOSAL OF SUBSIDIARIES

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Net assets disposed of:		
Property, plant and equipment	1,505	–
Trade and other receivables	1,366	–
Cash and bank balances	306	–
Trade and other payables	(2,037)	–
	<u>1,140</u>	–
Cost incurred	15	–
Gain on disposal of subsidiaries	1,245	–
	<u>2,400</u>	–
Total consideration	<u>2,400</u>	–
Analysis of inflow of cash and cash equivalents in respect of disposal of subsidiaries:		
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Cash consideration	2,400	–
Cash and cash equivalents disposed of	(306)	–
Cost incurred	(15)	–
	<u>2,079</u>	–
Net inflow of cash and cash equivalents	<u>2,079</u>	–

23. COMMITMENTS UNDER OPERATING LEASES

At the balance sheet date, total outstanding commitments in respect of land and buildings under non-cancellable operating leases are payable as follows:

	Group		Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	8,548	6,925	833	–
In the second to fifth years inclusive	6,243	3,717	740	–
	<u>14,791</u>	<u>10,642</u>	<u>1,573</u>	–

24. DEFERRED TAX ASSETS

Recognised deferred tax assets / (liabilities):

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Depreciation allowances	(467)	–
Tax losses	1,467	–
Net tax assets	1,000	–

The Group has suffered losses in prior periods and a deferred tax asset arising from the unused tax losses of HK\$1,000,000 in excess of the profits arising from the reversal of existing taxable temporary differences, has been recognised during the year, as it is probable that the Group will have taxable profit in the coming financial year.

Unrecognised deferred tax:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Tax losses	125,215	129,528
Tax credits	2,157	1,622
Others	9	7
As at 31 December	127,381	131,157

Both the tax losses and tax credits have no expiry dates under current tax legislation. Deferred tax assets have not been recognised in respect of these items due to uncertainty of their recoverability.

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

25. SEGMENTAL INFORMATION

The analysis of the business and geographical segments of operations of the Group during the year are as follows:

(a) By business segments**Year ended 31 December 2003**

	Tele- communication services	Others	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover			
External sales	398,128	4,415	402,543
Result			
Loss from operations	(4,790)	(1,776)	(6,566)
Finance costs			(157)
Gain on disposal of discontinued operation			532
Other operating income and expenses			(14,565)
Loss from ordinary activities			(20,756)
Taxation credit			1,000
Net loss attributable to shareholders			(19,756)
Other information			
Capital expenditure	5,974	2	
Depreciation	42,538	1,477	
Significant non-cash expenses (other than depreciation)	4,173	-	
Assets			
Segment assets	215,849	547	216,396
Unallocated assets			19,420
			235,816
Liabilities			
Segment liabilities	56,782	354	57,136
Unallocated liabilities			2,066
			59,202

25. SEGMENTAL INFORMATION *(continued)*

Year ended 31 December 2002

	Tele- communication services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>	
Turnover				
External sales	298,543	18,203	316,746	
Results				
Loss from operations	(103,493)	(21,359)	(124,852)	
Finance costs			(1,080)	
Other operating income and expenses			(31,154)	
Provision for diminution in value of investment securities			(27,982)	
Unrealised holding loss on other investments			(3,117)	
Share of results of associates			1,911	
Net loss attributable to shareholders			(186,274)	
Other information				
Capital expenditure	24,652	125		
Depreciation	43,039	3,322		
Significant non-cash expenses (other than depreciation)	7,804	898		
	Tele- communication services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets				
Segment assets	254,432	6,560	(77)	260,915
Unallocated assets				24,061
				284,976
Liabilities				
Segment liabilities	79,562	4,570	(77)	84,055
Unallocated liabilities				4,551
				88,606

Notes to the Financial Statements (continued)

For the year ended 31 December 2003

25. SEGMENTAL INFORMATION (continued)**(b) By geographical segments**

In presenting information on the basis of geographical segment, revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets. The corporate and other segment includes general corporate income and expense items and unallocated items.

Year ended 31 December 2003

	North America <i>HK\$'000</i>	Asia Pacific <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover			
External sales	264,997	137,546	402,543
Results			
Profit/(Loss) from operations	(6,992)	426	(6,566)
Finance costs			(157)
Gain on disposal of discontinued operation			532
Other operating income and expenses			(14,565)
Loss from ordinary activities			(20,756)
Taxation credit			1,000
Net loss attributable to shareholders			(19,756)
Other information			
Segment assets	181,356	35,040	216,396
Unallocated assets			19,420
			235,816
Capital expenditure	2,869	3,107	

25. SEGMENTAL INFORMATION *(continued)*

Year ended 31 December 2002

	North America <i>HK\$'000</i>	Asia Pacific <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover			
External sales	<u>177,464</u>	<u>139,282</u>	<u>316,746</u>
Result			
Loss from operations	<u>(81,747)</u>	<u>(43,105)</u>	(124,852)
Finance costs			(1,080)
Other operating income and expenses			(31,154)
Provision for diminution in value of investment securities			(27,982)
Unrealised holding loss on other investments			(3,117)
Share of results of associates			<u>1,911</u>
Net loss attributable to shareholders			<u>(186,274)</u>
Other information			
Segment assets	215,412	45,503	260,915
Unallocated assets			<u>24,061</u>
			<u>284,976</u>
Capital expenditure	<u>22,520</u>	<u>2,257</u>	

26. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.