

## Notes to the Financial Statements

For the year ended 31 December 2004

---

### 1. GENERAL

---

The Company is incorporated in Bermuda as an exempted company with limited liability and its 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 the Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong, the Companies Ordinance and applicable disclosure requirements under the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”). A summary of the principal accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted any of the new HKFRSs in its financial statements for the year ended 31 December 2004. The Group has assessed the impact of these new HKFRSs and does not think they would have any significant impact on the Group’s results of operations and financial position.

#### **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 2004.

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. The Group assumes any excess, and any further losses applicable to the minority, which exceed the minority interest in the equity of the subsidiary.

#### **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 amounts of the investments are reduced to their respective recoverable amounts on an individual basis.

## Notes to the Financial Statements (continued)

For the year ended 31 December 2004

### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### 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, net of 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 their estimated residual values, using the straight-line method at the following rates per annum:

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

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

#### Investment securities

Investment securities held on a continuing basis with an identified long-term purpose are stated at cost and are subject to impairment review at each reporting date to reflect any diminution in their values 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 that an 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 losses are 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.

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

### **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 telecommunications services provided to customers is recognised 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 sheets of overseas subsidiaries denominated in currencies other than Hong Kong dollars are translated at the approximate rates of exchange ruling at the balance sheet date while the income statements are translated at average rates for the year. All exchange differences arising on consolidation are dealt with in the exchange reserve.

### **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 profits will be available against which the deductible temporary differences, tax losses and credits can be utilised.

### **Retirement benefit 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 benefit schemes are recognised as expenses in the income statement as incurred. The assets of the schemes are held separately from those of the Group with 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 of up to a maximum limit of HK\$1,000.

**Notes to the Financial Statements** (continued)

For the year ended 31 December 2004

**2. PRINCIPAL ACCOUNTING POLICIES** (continued)**Retirement benefit schemes** (continued)

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, death or total incapacity. The employees are entitled to 100% of the Group's voluntary contributions after completion of first year's 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	
	2004 HK\$'000	2003 HK\$'000
<b>Turnover</b>		
Telecommunications services income	402,155	398,128
Other income	499	4,415
	<u>402,654</u>	<u>402,543</u>
Interest income	339	107
<b>Revenue</b>	<u>402,993</u>	<u>402,650</u>

**4. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION**

This is stated after charging/(crediting):

	Group	
	2004 HK\$'000	2003 HK\$'000
<b>(a) Finance costs</b>		
Finance charges on obligations under finance leases	38	157
<b>(b) Other items</b>		
Auditors' remuneration	1,278	1,214
Bad debts written off	2,943	3,901
Provision for doubtful debts	3,795	269
Cost of services provided	254,821	235,128
Depreciation of property, plant and equipment	48,925	44,403
Gain on disposal of other investments	-	(13)
Loss on disposal of investment securities	232	-
Loss/(Gain) on disposal of property, plant and equipment, including HK\$5,650,000 (2003: Nil) as disclosed in note 6	5,687	(2)
Operating lease charges on premises	2,499	1,544
Gain on disposal of subsidiaries	-	(1,245)
Staff costs, including directors' emoluments:		
Salaries, allowances and gratuities	70,322	87,540
Retirement benefit schemes contributions	2,224	2,918

## 5. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fees	225	200
Salaries, other emoluments, gratuities and other benefits in kind	4,687	8,103
Retirement benefit schemes contributions	72	72
	<u>4,984</u>	<u>8,375</u>

Included in the directors' remuneration were fees of HK\$225,000 (2003: 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	
	2004	2003
Nil – 1,000,000	4	3
1,500,001 – 2,000,000	3	3
3,000,001 – 3,500,000	–	1
	<u>7</u>	<u>7</u>

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

### Individuals with highest emoluments

Among the six (2003: six) individuals with the highest emoluments, three (2003: four) were directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other three (2003: two) individuals were as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Salaries, gratuities and other emoluments	5,118	3,493
Retirement benefit schemes contributions	65	40
Non-contractual payments for loss of office paid by a subsidiary	–	356
	<u>5,183</u>	<u>3,889</u>

<i>HK\$</i>	Number of individuals	
	2004	2003
1,500,001 – 2,000,000	3	1
2,000,001 – 2,500,000	–	1
	<u>3</u>	<u>2</u>

**Notes to the Financial Statements** (continued)

For the year ended 31 December 2004

**6. RESTRUCTURING COSTS**

Due to significant technological and market development in the telecommunications industry, and the outsourcing of certain business processes in the Group's telecommunications operations in the United States, the Group has reviewed the carrying value of certain existing equipment together with related hardware and software to assess the recoverable value of those assets. As a result, restructuring costs of HK\$100.5 million have been recognised in the year ended 31 December 2004, the breakdown of which is set out as follows:

	<b>Group</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Impairment loss on property, plant and equipment ( <i>note 11</i> )	<b>90,153</b>	–
Loss on disposal of property, plant and equipment ( <i>note 11</i> )	<b>5,650</b>	–
Provision for obligations under an operating lease	<b>4,437</b>	–
Other	<b>304</b>	–
	<b>100,544</b>	–

**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 assets relating to the origination of temporary differences as analysed below:

	<b>Group</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Types of temporary differences:		
Depreciation allowances	<b>(770)</b>	467
Tax losses	<b>(599)</b>	(1,467)
	<b>(1,369)</b>	(1,000)

Reference should also be made to note 23 for further details of the Group's deferred taxation status.

Reconciliation of effective tax rate:

	<b>Group</b>	
	<b>2004</b>	2003
	%	%
Applicable tax rate	<b>(18)</b>	(18)
Non-deductible expenses	<b>7</b>	15
Unrecognised tax losses arising in current year	<b>6</b>	27
Utilisation of previously unrecognised tax losses	<b>(1)</b>	(20)
Recognition of previously unrecognised deferred tax assets	<b>7</b>	5
Sundries	–	(4)
Effective tax rate	<b>1</b>	5

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

## 8. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

---

The net loss attributable to shareholders includes the loss of the Company in the amount of HK\$105,864,000 (2003: HK\$17,051,000) 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 2004 was based on the consolidated loss attributable to shareholders of HK\$131,607,000 (2003: HK\$19,756,000) and on the 470,894,200 (2003: 470,894,200) shares in issue during the year.

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

## 10. EBITDA

---

EBITDA represents earnings before interest expenses, taxation, depreciation, amortisation, and impairment and disposal losses on property, plant and equipment.

## 11. PROPERTY, PLANT AND EQUIPMENT

---

Group	Leasehold improvements HK\$'000	Machinery and equipment HK\$'000	Office equipment, furniture and fittings HK\$'000	Total HK\$'000
<b>Cost</b>				
As at 1 January 2004	739	214,125	18,568	233,432
Additions	13	1,309	3,482	4,804
Disposals	–	(9,027)	(843)	(9,870)
Exchange adjustments	–	346	399	745
<b>As at 31 December 2004</b>	<b>752</b>	<b>206,753</b>	<b>21,606</b>	<b>229,111</b>
<b>Accumulated depreciation</b>				
As at 1 January 2004	507	69,168	14,059	83,734
Charge for the year	210	45,940	2,775	48,925
Disposals	–	(1,506)	(800)	(2,306)
Impairment losses	35	89,798	320	90,153
Exchange adjustments	–	342	347	689
<b>As at 31 December 2004</b>	<b>752</b>	<b>203,742</b>	<b>16,701</b>	<b>221,195</b>
<b>Net book value</b>				
<b>As at 31 December 2004</b>	<b>–</b>	<b>3,011</b>	<b>4,905</b>	<b>7,916</b>
As at 31 December 2003	232	144,957	4,509	149,698

**Notes to the Financial Statements** (continued)

For the year ended 31 December 2004

**11. PROPERTY, PLANT AND EQUIPMENT** (continued)

Due to significant technological and market development in the telecommunications industry, and the outsourcing of certain business processes in the Group's telecommunications operations in the United States, the Group has reviewed the carrying value of certain existing equipment together with related hardware and software to assess the recoverable value of those assets. As a result, disposal and impairment losses of HK\$95.8 million have been recognised in the year ended 31 December 2004.

The net book value of the Group's property, plant and equipment includes an amount of HK\$993,000 (2003: HK\$699,000) in respect of assets held under finance leases.

<b>Company</b>	<b>Office equipment HK\$'000</b>
<b>Cost</b>	
As at 1 January 2004	1,997
Additions	121
Disposals	(355)
<b>As at 31 December 2004</b>	<b>1,763</b>
<b>Accumulated depreciation</b>	
As at 1 January 2004	1,783
Charge for the year	181
Disposals	(354)
<b>As at 31 December 2004</b>	<b>1,610</b>
<b>Net book value</b>	
<b>As at 31 December 2004</b>	<b>153</b>
As at 31 December 2003	214

**12. INTERESTS IN SUBSIDIARIES**

	<b>Company</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Unlisted shares, at cost	–	7,800
Due from subsidiaries	<b>713,510</b>	790,553
Less: Provisions	<b>(657,288)</b>	(631,233)
	<b>56,222</b>	167,120



## 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>	
ZONE USA, Inc.	United States of America	US\$10	–	100%	Investment holding
ZONE Telecom Pte Ltd	Singapore	S\$100,000	–	100%	Provision of telecommunications services
ZONE Telecom, Inc.	United States of America	US\$10	–	100%	Provision of telecommunications services
ZONE Limited	Hong Kong	HK\$2	–	100%	Provision of telecommunications services
ZONE Global Limited	British Virgin Islands	US\$1	–	100%	Investment holding
ZONE Channel Services Limited	Hong Kong	HK\$2	–	100%	Provision of marketing and promotion services
speedinsure.com Limited	Hong Kong	HK\$10,000	–	70.3%	Provision of sales and fulfillment solutions
speedinsure Global Limited	British Virgin Islands	US\$10,000	–	70.3%	Investment holding
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
Cyber Insurance Brokers Limited	Hong Kong	HK\$5,000,000	–	70.3%	Insurance brokerage
China Portal Limited	British Virgin Islands	US\$1	–	100%	Provision of marketing and consultancy services

The above summary includes those subsidiaries 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 2004

**13. INVESTMENT SECURITIES**

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Equity securities, unlisted – at cost less provision	<b>1,894</b>	3,452

**14. TRADE AND OTHER RECEIVABLES**

	Group		Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>Trade receivables</b>	<b>39,524</b>	39,840	–	–
<b>Other receivables</b>				
Deposits, prepayments and other debtors	<b>6,045</b>	7,649	<b>1,345</b>	1,220
	<b>45,569</b>	47,489	<b>1,345</b>	1,220

The Group's credit terms on 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	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current	<b>33,069</b>	39,040
1 to 3 months	<b>6,103</b>	775
More than 3 months but less than 12 months	<b>352</b>	25
	<b>39,524</b>	39,840

**15. PLEDGED DEPOSITS**

At the balance sheet date, the Group and the Company had pledged deposits amounting to HK\$2,817,000 (2003: HK\$3,305,000) and HK\$1,700,000 (2003: HK\$2,110,000), respectively, to banks for guarantees made by the banks to certain telecommunications carriers for due payments by the Group.

## 16. TRADE AND OTHER PAYABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade payables	26,955	24,218	–	–
<b>Other payables</b>				
Accrued charges and other creditors	33,371	34,383	807	2,066
Due to subsidiaries	–	–	619	1,254
	<b>60,326</b>	<b>58,601</b>	<b>1,426</b>	<b>3,320</b>

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Current	19,900	18,832
1 to 3 months	3,582	3,167
More than 3 months but less than 12 months	3,473	2,219
	<b>26,955</b>	<b>24,218</b>

## 17. OBLIGATIONS UNDER FINANCE LEASES

The obligations under finance leases are repayable as follows:

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<b>Finance leases due:</b>				
Within one year	218	326	184	289
After one year but within two years	218	326	184	312
After two years but within five years	653	–	625	–
	<b>1,089</b>	<b>652</b>	<b>993</b>	<b>601</b>
<b>Future finance charges</b>	<b>(96)</b>	<b>(51)</b>	<b>–</b>	<b>–</b>
<b>Present value of lease obligations</b>	<b>993</b>	<b>601</b>	<b>993</b>	<b>601</b>
<b>Reported as:</b>				
Current liabilities			184	289
Long-term liabilities			809	312
			<b>993</b>	<b>601</b>

**Notes to the Financial Statements** (continued)

For the year ended 31 December 2004

**18. ISSUED CAPITAL**

	2004		2003	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
<b>Authorised</b>				
<i>Preference shares</i>				
As at 1 January at HK\$1 each	288,929,402	288,929	288,929,402	288,929
Cancellation of preference shares	(288,929,402)	(288,929)	–	–
As at 31 December, at HK\$Nil (2003: HK\$1) each	–	–	288,929,402	288,929
<i>Ordinary shares</i>				
As at 1 January and as at 31 December, at HK\$0.01 each	12,000,000,000	120,000	12,000,000,000	120,000
		120,000		408,929
<b>Issued and fully paid</b>				
<i>Ordinary shares</i>				
As at 1 January and as at 31 December, at HK\$0.01 each	470,894,200	4,709	470,894,200	4,709

## 19. SHARE OPTIONS

---

### **Company**

Pursuant to an 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 remain effective and are bound by the scheme terms.

On 28 June 2002, the Company adopted a new share option scheme (the “New Share Option Scheme”) to comply with the requirements of Chapter 17 of the Listing Rules. Under the New Share Option Scheme, the directors of the Company may 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 been granted by the Company under the New Share Option Scheme since adoption.

### **Subsidiaries**

On 28 June 2002, the Company adopted scheme rules and procedures for share option schemes for its subsidiaries (the “Subsidiary Scheme Rules and Procedures”). In accordance with the Subsidiary Scheme Rules and Procedures, the subsidiaries may adopt their own respective share option schemes in line with the terms and conditions of the Subsidiary Scheme Rules and Procedures, pursuant to which the board of directors of each of the relevant subsidiaries may 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 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 adopted their respective share option schemes pursuant to the terms and conditions of the Subsidiary Scheme Rules and Procedures since adoption.

### **Summary of principal terms**

A summary of principal terms of the New Share Option Scheme and Subsidiary 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 of the company, 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 12 April 2005, 13,574,261 shares of the Company, representing about 2.9% of the issued share capital of the Company, 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.

**Notes to the Financial Statements** (continued)

For the year ended 31 December 2004

**19. SHARE OPTIONS** (continued)(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 Subsidiary 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.

(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 highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant; (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.

***Subsidiary 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, suppliers of goods or services, or other participants other than eligible employees under the Old Share Option Scheme.

Details of the share options granted and remaining outstanding at the balance sheet date were as follows:

Date of grant	Exercisable period	Exercise price HK\$	Number of share options		
			As at 1 January 2004	Lapsed during the year	As at 31 December 2004
25.10.1999	25.10.2000 – 24.10.2009	1.40	1,065,000	(1,050,000)	15,000
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	450,000	(450,000)	–
25.01.2000	01.03.2000 – 24.10.2009	2.30	150,000	(150,000)	–
03.03.2000	03.04.2000 – 24.10.2009	7.60	1,140,000	(1,140,000)	–
03.03.2000	03.03.2001 – 24.10.2009	7.60	15,000	(15,000)	–
28.04.2000	28.04.2001 – 24.10.2009	3.30	476,500	(329,000)	147,500
09.08.2000	09.08.2001 – 24.10.2009	2.30	30,000	–	30,000
25.10.2000	25.10.2001 – 24.10.2009	1.20	30,000	(10,000)	20,000
<b>Total</b>			<b>4,034,000</b>	<b>(3,444,000)</b>	<b>590,000</b>

## 20. RESERVES

<b>Group</b>	<b>Share premium <i>HK\$'000</i></b>	<b>Exchange reserve <i>HK\$'000</i></b>	<b>Capital redemption reserve <i>HK\$'000</i></b>	<b>Contributed surplus <i>HK\$'000</i></b>	<b>Accumulated losses <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
As at 1 January 2003	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
Exchange difference on translation of foreign subsidiaries	–	(1,384)	–	–	–	(1,384)
Net loss attributable to shareholders	–	–	–	–	(131,607)	(131,607)
<b>As at 31 December 2004</b>	<b>23,461</b>	<b>(1,384)</b>	<b>6</b>	<b>607,462</b>	<b>(590,631)</b>	<b>38,914</b>
<b>Company</b>						
As at 1 January 2003	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
Net loss attributable to shareholders	–	–	–	–	(105,864)	(105,864)
<b>As at 31 December 2004</b>	<b>23,461</b>	<b>–</b>	<b>6</b>	<b>607,462</b>	<b>(561,995)</b>	<b>68,934</b>

Contributed surplus represents the amounts transferred from the share premium account as a result of the capital reorganisation undertaken by the Company in November 2002. Under the Companies 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 account.

Subject to the conditions mentioned in the foregoing paragraph, the Company had the following reserves available for distribution to shareholders at the balance sheet date:

	<b>2004 <i>HK\$'000</i></b>	<b>2003 <i>HK\$'000</i></b>
Contributed surplus	607,462	607,462
Accumulated losses	(561,995)	(456,131)
	<b>45,467</b>	<b>151,331</b>

**Notes to the Financial Statements** (continued)

For the year ended 31 December 2004

**21. CASH GENERATED FROM OPERATIONS**

	<b>Group</b>	
	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation	(132,976)	(20,756)
Interest income	(339)	(107)
Interest on obligations under finance leases	38	157
Depreciation	48,925	44,403
Loss/(Gain) on disposal of property, plant and equipment	5,687	(2)
Impairment losses on property, plant and equipment	90,153	–
Gain on disposal of subsidiaries	–	(1,245)
Loss on disposal of investment securities	232	–
Gain on disposal of other investments	–	(13)
Bad debts written off	2,943	3,901
Provision for doubtful debts	3,795	269
Foreign exchange effects	(1,440)	–
Changes in working capital:		
Trade and other receivables	(4,818)	(1,117)
Trade and other payables	1,725	(20,572)
<b>Cash generated from operations</b>	<b>13,925</b>	<b>4,918</b>

**22. 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:

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	4,861	8,548	1,820	833
In the second to fifth years inclusive	7,370	6,243	816	740
Over five years	355	–	–	–
	<b>12,586</b>	<b>14,791</b>	<b>2,636</b>	<b>1,573</b>



## 23. DEFERRED TAX ASSETS

### Recognised deferred tax assets/(liabilities)

	Group	
	2004	2003
	HK\$'000	HK\$'000
Depreciation allowances	303	(467)
Tax losses	2,066	1,467
<b>Net deferred tax assets</b>	<b>2,369</b>	<b>1,000</b>

The Group has suffered losses in prior periods. Based on the actual and budgeted results for the year ending 31 December 2005, management expects that certain subsidiaries of the Group will be able to generate taxable profits in the coming financial year. A deferred tax asset has been recognised to the extent of tax losses expected to be utilised in the coming financial year.

### Unrecognised deferred tax assets

	Group	
	2004	2003
	HK\$'000	HK\$'000
Tax losses	155,649	125,215
Tax credits	1,957	2,157
Deductible temporary differences	741	9
<b>As at 31 December</b>	<b>158,347</b>	<b>127,381</b>

The tax losses of HK\$169,462,000 (2003: HK\$170,134,000), tax credits of HK\$9,787,000 (2003: HK\$9,806,000) and deductible temporary differences of HK\$4,217,000 (2003: HK\$43,000) have no expiry dates under current tax legislation. The tax losses of HK\$370,568,000 (2003: HK\$279,148,000) can be carried forward for 20 years and will begin to expire from 2020 onwards. 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 2004

**24. SEGMENTAL INFORMATION**

The analysis of the principal business activities and geographical areas of operation of the Group during the year are as follows:

**(a) By business segments****Year ended 31 December 2004**

	<b>Tele- communications services</b> <i>HK\$'000</i>	<b>Others</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>Turnover</b>			
External sales	402,155	499	402,654
<b>Results</b>			
Loss from operations	(19,039)	(271)	(19,310)
Restructuring costs	(100,544)	–	(100,544)
	(119,583)	(271)	(119,854)
Finance costs			(38)
Other operating income and expenses			(13,084)
Loss from ordinary activities before taxation			(132,976)
Taxation credit			1,369
Net loss attributable to shareholders			(131,607)
<b>Other information</b>			
Capital expenditures			
– Business segments	4,683	–	4,683
– Unallocated segments			121
Depreciation			
– Business segments	48,551	193	48,744
– Unallocated segments			181
Significant non-cash expenses (other than depreciation)			
– Business segments	102,577	1	102,578
<b>Assets</b>			
Segment assets	83,957	237	84,194
Unallocated assets			20,748
			104,942
<b>Liabilities</b>			
Segment liabilities	60,199	309	60,508
Unallocated liabilities			811
			61,319

## 24. SEGMENTAL INFORMATION *(continued)*

### (a) By business segments *(continued)*

Year ended 31 December 2003

	Tele- communications services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Turnover</b>			
External sales	398,128	4,415	402,543
<b>Results</b>			
Loss from operations	(4,790)	(1,776)	(6,566)
Finance costs			(157)
Gain on disposal of discontinuing operation			532
Other operating income and expenses			(14,565)
Loss from ordinary activities before taxation			(20,756)
Taxation credit			1,000
Net loss attributable to shareholders			(19,756)
<b>Other information</b>			
Capital expenditures			
– Business segments	5,974	2	5,976
– Unallocated segments			63
Depreciation			
– Business segments	42,538	1,477	44,015
– Unallocated segments			388
Significant non-cash expenses (other than depreciation)			
– Business segments	4,170	–	4,170
<b>Assets</b>			
Segment assets	215,849	547	216,396
Unallocated assets			19,420
			235,816
<b>Liabilities</b>			
Segment liabilities	56,782	354	57,136
Unallocated liabilities			2,066
			59,202

**Notes to the Financial Statements** (continued)

For the year ended 31 December 2004

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

In presenting information on the basis of geographical segments, revenue is based on the geographical location of customers. Segment assets and capital expenditures are based on the geographical location of the assets.

**Year ended 31 December 2004**

	North America HK\$'000	Asia Pacific HK\$'000	Consolidated HK\$'000
<b>Turnover</b>			
External sales	<u>273,678</u>	<u>128,976</u>	<u>402,654</u>
<b>Results</b>			
Profit/(Loss) from operations	(25,782)	6,472	(19,310)
Restructuring costs	<u>(100,544)</u>	<u>—</u>	<u>(100,544)</u>
	<u>(126,326)</u>	<u>6,472</u>	(119,854)
Finance costs			(38)
Other operating income and expenses			<u>(13,084)</u>
Loss from ordinary activities before taxation			(132,976)
Taxation credit			<u>1,369</u>
Net loss attributable to shareholders			<u>(131,607)</u>
<b>Other information</b>			
Segment assets	<u>52,547</u>	<u>52,395</u>	<u>104,942</u>
Capital expenditures	<u>2,174</u>	<u>2,630</u>	<u>4,804</u>

**Year ended 31 December 2003**

	North America HK\$'000	Asia Pacific HK\$'000	Consolidated HK\$'000
<b>Turnover</b>			
External sales	<u>264,997</u>	<u>137,546</u>	<u>402,543</u>
<b>Results</b>			
Profit/(Loss) from operations	<u>(24,255)</u>	<u>17,689</u>	(6,566)
Finance costs			(157)
Gain on disposal of discontinuing operation			532
Other operating income and expenses			<u>(14,565)</u>
Loss from ordinary activities before taxation			(20,756)
Taxation credit			<u>1,000</u>
Net loss attributable to shareholders			<u>(19,756)</u>
<b>Other information</b>			
Segment assets	<u>181,356</u>	<u>54,460</u>	<u>235,816</u>
Capital expenditures	<u>2,869</u>	<u>3,170</u>	<u>6,039</u>

**25. COMPARATIVE FIGURES**

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