1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable 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 and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, other investments are stated at fair value and senior notes are stated at fair value on the date of inception. The Group has added an accounting policy following its issuance of 10-year senior notes due 2015 at fixed interest rate of 8.75% per annum during the year ended 31 August 2005.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKAS") (collectively, "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 August 2005.

The Group has made a preliminary assessment of the impact of these new HKFRSs and has concluded that the adoption of HKFRS 2 "Share-based Payment", HKFRS 3 "Business Combinations" and HKAS 39 "Financial Instruments: Recognition and Measurement" will have an impact on the Group's accounts as described below:

HKFRS 2 "Share-based Payment"

With effect from 1 September 2005, HKFRS 2 requires that the Group recognises the fair value of share options granted to employees as an expense in the profit and loss account, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve within equity. HKFRS 2 requires that the fair value of the share options is measured at the date of grant. Where the employees are required to meet vesting conditions before they become entitled to the options, the fair value of the options granted should be recognised over the vesting period.

Under the transitional provisions of HKFRS 2, the Group can choose not to apply this treatment to share-based payments which were granted on or before 7 November 2002 or which were granted after 7 November 2002 but already vested before 1 September 2005.

Had this revised accounting standard been adopted for the year ended 31 August 2005, the other operating expenses and the capital reserve of the Group would increase due to the recognition of share-based compensation expense. Management has assessed and considered the impact of the adoption of this new policy on the Group's profit/(loss) attributable to shareholders and net assets not significant.

HKFRS 3 "Business Combinations"

With effect from 1 September 2005, HKFRS 3 requires goodwill to be recorded at cost less any accumulated impairment losses. Positive goodwill under HKFRS 3 is no longer amortised but requires annual test for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amounts.

In accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill), the excess is recognised immediately in the consolidated profit and loss account as it arises.

In accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken directly to reserves (i.e. goodwill which arose before 1 January 2001) will not be recognised in the consolidated profit and loss account on disposal or impairment of the acquired business, or under any other circumstances.

This new policy is to be applied prospectively from 1 September 2005 in accordance with the transitional arrangements under HKFRS 3. This will result in a change to the Group's current accounting policies from 1 September 2005 onwards on the amortisation of goodwill. The new policy in respect of negative goodwill would have no impact on the consolidated accounts of the Group.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (CONTINUED)

HKFRS 3 "Business Combinations" (CONTINUED)

Had this revised accounting standard been adopted for the year ended 31 August 2005, the other operating expenses would decrease and the goodwill balance would increase because of the cessation of the amortisation of the goodwill balance.

Management has assessed and considered the impact on of the adoption of this new policy on the Group's consolidated profit/(loss) attributable to shareholders and consolidated net assets not significant.

HKAS 39 "Financial Instruments: Recognition and Measurement"

With effect from 1 September 2005, HKAS 39 requires the following:

– All non-trading investments are classified as available-for-sale securities and carried at fair value. Changes in fair value are recognised in equity, unless there is objective evidence that an individual investment has been impaired. If there is objective evidence that an individual investment has been impaired, any amount held in fair value reserve in respect of the investment is transferred to the profit and loss account for the period in which the impairment is identified. Any subsequent increase in the fair value of available-for-sale securities is recognised directly in equity.

  Based on management's evaluation, the adoption of this new policy would not be significant on the accounts of the Group.

– All derivative financial instruments entered into by the Group are stated at fair value. The accounting for changes in fair value depends on whether the derivative instrument qualifies as a hedge. Gains and losses on a derivative instrument designated and qualifying as a fair value hedge as well as the offsetting loss or gain on the hedged item attributable to the hedged risk shall be recognised currently in the profit and loss account. The effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedge shall be reported in equity and reclassified into earnings in the same period or periods during which the hedged forecasted transaction impact earnings. Any ineffective portion of the changes in fair value of the derivatives is recognised in the profit and loss account.

  Management expects that the adoption of this new policy would result in an increase or decrease in the net asset or the other revenues of the Group depending on the change in fair value of the financial instruments. Had this new policy been adopted in the year ended 31 August 2005, the other revenues and the net asset of the Group would increase due to the recognition of the gain in increase in fair value of the interest rate swap and foreign forward exchange contracts.

– Convertible notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the capital reserve until the note is either converted (in which case it is transferred to share premium) or the note is redeemed (in which case it is released directly to retained profits).

  This new policy in respect of convertible notes would have no impact on the accounts because the Group did not issue any convertible notes as defined under HKAS 32 "Financial instruments: Disclosure and Presentation".

The Group is continuing its assessment of the impact of other new HKFRSs and other significant changes may be identified as a result.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 August. Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances with the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

For consolidation of the subsidiaries, where the functional currency is other than Hong Kong dollar, revenues and expenses are translated into Hong Kong dollars at the average rate for the year; and balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The result of exchange differences are dealt with as a movement in reserves.

(c) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions that occurred prior to 1 September 2001 was written off against reserves. Goodwill on acquisitions occurring on or after 1 September 2001 is separately shown on the consolidated balance sheet and is amortised on a straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a period of not more than 20 years.

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 and any write-down is accounted for in the profit and loss account.

(d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Leasehold land is depreciated over the period of the lease while other tangible fixed assets are depreciated at rates sufficient to write off their costs less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold land	2%
Leasehold buildings	2%
Furniture, fixtures and fittings	25%
Telecommunications, computer and office equipment	7% – 25%
Motor vehicles	25%

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(d) Fixed assets (CONTINUED)

Depreciation of leasehold improvements is calculated to write off their cost less accumulated impairment losses over the unexpired periods of the leases or their expected useful lives whichever is shorter.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Major improvements are capitalised and depreciated over the expected useful lives of such assets.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(e) Assets held under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities or current liabilities, as appropriate. The finance charges are charged to the profit and loss account over the lease periods based on the effective interest method.

Assets held under finance leases are depreciated over the shorter of lease periods or the assets' estimated useful lives.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that leased assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases net of any incentives received from the lessor are charged to the profit and loss account on a straight-line basis over the lease period.

(f) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the change in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(g) Deferred expenditure

Direct customer acquisition costs incurred for the successful acquisition or origination of a long-term service agreement are deferred and amortised on a straight-line basis over the period of the underlying service subscription agreements executed with the customers. All other related advertising and marketing costs are charged to the profit and loss account as incurred.

(h) Accounts receivable

Provision is made against accounts receivable when the recoverability of the account balance is considered to be doubtful. Accounts receivable in the balance sheets are stated net of such provision.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is determined using the first in, first out method (FIFO) and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

As of 31 August 2005, there was no write-down or reversal of a previous write-down made against inventories due to change in net realisable value.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Cash equivalents, are stated at costs, which approximates fair value because of the short-term maturity of these investments.

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(l) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Profit sharing and bonus plans

Provisions for profit sharing and bonus plans are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Retirement benefit costs

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the fund. The Group's contributions are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

The assets of the scheme are held separately from those of the Group in an independent administered fund.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted as at the balance sheet date are used to measure deferred taxation.

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future.

(n) Senior notes

The senior notes are initially accounted at fair value (which is equivalent to the issuance price) less the amount of incidental issuance costs.

After initial recognition, the senior notes are stated at amortised cost and any difference between the initial recognised fair value (net of incidental issuance costs) and the redemption or par value is amortised from the date of issue to the date of maturity using the effective interest method.

In the event that the senior notes are redeemed prior to the maturity date, the difference between the carrying value and the redemption value of the notes is charged immediately to the profit and loss account.

(o) Contingent liabilities and assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(p) Revenue recognition

(i) Revenue for the provision of international telecommunications and fixed telecommunications network services is recognised, net of discounts, when an arrangement exists, service is rendered, the fee is fixed or determinable, and collectibility is probable.

(ii) Amount received in advance for the provision of international telecommunications services using calling cards is deferred and included under deferred services income and subsequently recognised as revenue when the calling cards are used by customers or when the calling cards have expired.

(iii) Amount received in advance for the provision of fixed telecommunications network services is deferred and included under deferred services income, and subsequently recognised as revenue on a straight-line basis over the agreed period of time in accordance with the terms of the subscription agreement.

(iv) Revenue from the sales of products is recognised upon the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(v) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(q) Research and development costs

Research and development costs of new services and enhancements to existing services are charged to the profit and loss account as incurred.

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(s) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segment be presented as the primary reporting format and geographical segment as the secondary reporting format.

Segment assets consist primarily of goodwill, fixed assets, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are reported based on the country in which the customer is located. Total assets and capital expenditure are reported based on where the assets are located.

(t) Accounting for barter transactions

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a revenue generating transaction.

When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a revenue generating transaction. The revenue is measured at the fair value of the goods or services rendered, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

(u) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(v) Use of estimates

The preparation of accounts in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

2. TURNOVER, OTHER REVENUES AND SEGMENTAL INFORMATION

The Group is principally engaged in the provision of international telecommunications services and fixed telecommunications network services to customers in Hong Kong and Canada. Revenues recognised during the year are as follows:

	2005	2004
	HK$'000	HK$'000
Turnover		
International telecommunications services	532,595	627,978
Fixed telecommunications network services (note (c))	604,761	541,902
	1,137,356	1,169,880
Other revenues		
Interest income	13,578	3,753
Other income	6,037	2,668
	19,615	6,421
Total revenues	1,156,971	1,176,301

(a) Primary reporting format – business segments

The Group is organised on a worldwide basis into two business segments:

– International telecommunications : provision of international long distance calls services

– Fixed telecommunications network : provision of dial up and broadband Internet access services, local voice-over-IP services and IP-TV services

2. TURNOVER, OTHER REVENUES AND SEGMENTAL INFORMATION (CONTINUED)

(a) Primary reporting format – business segments (CONTINUED)

The Group's inter-segment transactions mainly consist of provision of leased lines services. These transactions were entered into on similar terms as those contracted with third parties.

	2005			
	International telecommunications services	Fixed telecommunications network services	Elimination	Group
	HK$'000	HK$'000	HK$'000	HK$'000
Turnover				
– External sales	532,595	604,761	–	1,137,356
– Inter-segment sales	4,108	33,188	(37,296)	–
	536,703	637,949	(37,296)	1,137,356
Segment results	105,359	(263,974)		(158,615)
Finance costs				(54,462)
Loss before taxation				(213,077)
Tax benefit				6,725
Loss attributable to shareholders				(206,352)

	2004			
	International telecommunications services	Fixed telecommunications network services	Elimination	Group
	HK$'000	HK$'000	HK$'000	HK$'000
Turnover				
– External sales	627,978	541,902	–	1,169,880
– Inter-segment sales	5,682	30,183	(35,865)	–
	633,660	572,085	(35,865)	1,169,880
Segment results	161,463	(109,695)		51,768
Finance costs				(175)
Profit before taxation				51,593
Tax expense				(2,043)
Profit attributable to shareholders				49,550

2. TURNOVER, OTHER REVENUES AND SEGMENTAL INFORMATION (CONTINUED)

(a) Primary reporting format – business segments (CONTINUED)

	2005		
	International telecommunications services	Fixed telecommunications network services	Group
	HK$'000	HK$'000	HK$'000
Segment assets	942,304	1,354,768	2,297,072
Unallocated assets			535
Total assets			2,297,607
Segment liabilities	130,011	721,748	851,759
Unallocated liabilities			475,215
Total liabilities			1,326,974
Capital expenditure	11,582	407,544	419,126
Depreciation	24,928	211,721	236,649
Goodwill amortisation charge	–	–	1,065

	2004		
	International telecommunications services	Fixed telecommunications network services	Group
	HK$'000	HK$'000	HK$'000
Segment assets	532,161	1,151,018	1,683,179
Unallocated assets			229
Total assets			1,683,408
Segment liabilities	128,304	340,172	468,476
Unallocated liabilities			39,234
Total liabilities			507,710
Capital expenditure	17,164	392,882	410,046
Depreciation	29,023	166,929	195,952
Goodwill amortisation charge	–	–	1,065

2. TURNOVER, OTHER REVENUES AND SEGMENTAL INFORMATION (CONTINUED)

(b) Secondary reporting format – geographical segments

Although the Group's two business segments are managed on a worldwide basis, they operate in two main geographical areas:

– Hong Kong : international telecommunications and fixed telecommunications network services

– Canada : international telecommunications and fixed telecommunications network services

In presenting information on the basis of geographical segments, turnover and segment results are presented based on the geographical location of customers. Total assets and capital expenditure are presented based on the geographical location of the assets.

There were no sales between the geographical segments.

	2005			
	Turnover	Segment results	Total assets	Capital expenditure
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong	1,114,118	(155,810)	2,287,972	418,981
Canada	23,238	(2,805)	9,100	145
	1,137,356		2,297,072	419,126
Operating loss		(158,615)		
Unallocated assets			535	
Total assets			2,297,607	

	2004			
	Turnover	Segment results	Total assets	Capital expenditure
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong	1,145,102	53,375	1,675,546	409,866
Canada	24,778	(1,607)	7,633	180
	1,169,880		1,683,179	410,046
Operating profit		51,768		
Unallocated assets			229	
Total assets			1,683,408	

2. TURNOVER, OTHER REVENUES AND SEGMENTAL INFORMATION (CONTINUED)

(c) Hong Kong Broadband Network Limited ("HKBN"), a wholly-owned subsidiary of the Group, as a Fixed Telecommunications Network Services ("FTNS") licensee, provides interconnection services to enable delivery of telecommunications service to customers of different operators. Since the FTNS license was granted by the Office of the Telecommunications Authority ("TA") and interconnection services have been provided, the Group has been recognising interconnection services billed to mobile operators as revenue ("mobile interconnection charges"). For the year ended 31 August 2004, the Group recorded mobile interconnection charges of HK$38,376,000 and had receivables of HK$44,617,000 at 31 August 2004 representing mobile interconnection charges from 2002 to 2004 due from several mobile operators.

The charges were determined using the available rates under the existing calculation model (fully distributed cost model) for interconnection services between fixed and mobile operators, which are based on historical cost data of PCCW-HKT Telephone Limited ("PCCW-HKT"). In May 2004, TA confirmed to HKBN that mobile operators should pay interconnection charges to fixed network operators in accordance with the existing charging principles under the relevant TA statements. In August 2004, TA agreed to make a determination under section 36A of the Telecommunications Ordinance to cover the level of mobile and fixed interconnection charges payable by one of the mobile operators to HKBN; and the effective date of the determined interconnection charges.

As of 31 August 2005, the level of mobile interconnection charges billed to one of the mobile operators and the effective date of the determined mobile interconnection charges is still under the determination process from TA. According to the Revised TA statement on "Procedures for Making Determinations on the Terms and Conditions of Interconnection" dated 27 September 2001, the benchmark for determination processing time on "Complex Cases" is approximately six and a half months. This benchmark processing time has been passed during the year but the determination is still in progress with no determination made as of the date of this report. Therefore, the Group performed an assessment as at 31 August 2005 on the timing of the recoverability of these charges and determined that it is not able to provide a reasonable estimate on the timing of the completion of the determination process. Accordingly, the Group concluded that no revenue from the mobile interconnection charges billed to several mobile operators should be recognised for the year ended 31 August 2005.

In addition, the Group concluded that future mobile interconnection charges would be recognised as revenue on a cash basis or when the uncertainties no longer exist. Management has undertaken to continue to evaluate the situation and monitor the progress of TA's determination.

Management also evaluated the collectibility of the receivables of HK$44,617,000 relating to mobile interconnection charges as at 31 August 2005 and determined that a full bad debt provision needs to be made due to the uncertainties about the timing of the collection and the long outstanding aging of the receivable balance.

3. NETWORK COSTS

Network costs mainly include interconnection charges paid to local and overseas carriers, leased line rentals, program fees and production costs for the IP-TV service, and do not include depreciation charge which is included in other operating expenses.

The Group estimates the Universal Services Contributions ("USC") payable to PCCW-HKT to fund the costs of network development in remote areas in Hong Kong and includes such estimated costs as part of the network costs. TA periodically reviews the actual costs of such developments and revises the amounts owed to PCCW-HKT or to be refunded by PCCW-HKT to the USC contributing parties.

On 11 November 2005, TA issued a statement on the USC and confirmed the actual contribution level for calendar year 2003. In aggregate, an amount of HK$6,447,888 was recorded as a reduction against the network costs of the Group for the year ended 31 August 2005.

On 19 November 2004, TA issued a statement on the USC and confirmed the actual contribution level for calendar year 2002. In aggregate, an amount of HK$31,688,696 was recorded as a reduction against the network costs of the Group for the year ended 31 August 2004.

The actual contribution level for calendar year 2004 and 2005 is not yet confirmed by TA.

4. OTHER OPERATING EXPENSES

	2005	2004
	HK$'000	HK$'000
Advertising and marketing expenses	267,423	228,169
Goodwill amortisation charge (note 14)	1,065	1,065
Depreciation (note 15)	236,649	195,952
Equipment rental	914	31
Office rental and utilities	27,241	23,781
Provision for doubtful debts (note)	60,563	11,502
Staff costs (including directors' emoluments) (note 11)	252,987	226,650
Others	129,342	105,975
	976,184	793,125

Note: Include provision for receivables of mobile interconnection charges of HK$44,617,000 (note 2(c)).

5. OPERATING (LOSS)/PROFIT

The operating (loss)/profit is stated after crediting and charging the following:

	2005	2004
	HK$'000	HK$'000
Crediting:		
Net exchange gains	3,300	131
Gain on disposal of fixed assets	134	34
Reversal of network costs accrued for in prior years	–	10,188
Unrealised gain on other investments	300	–
Charging:		
Goodwill amortisation charge (note 14)	1,065	1,065
Amortisation of deferred expenditure (note 19)	12,927	1,828
Auditors' remuneration	1,914	1,279
Depreciation of owned fixed assets	236,269	195,952
Depreciation of fixed assets held under finance lease	380	–
Operating lease charges in respect of land and buildings	13,081	8,084
Operating lease charges in respect of equipment	914	31
Provisions for doubtful debts (note)	60,563	11,502
Research and development costs	11,023	5,962
Unrealised losses on other investments	–	1,696
Staff costs (including directors' emoluments) (note 11)	273,833	244,944
Less: Staff costs capitalised as fixed assets	(20,846)	(18,294)
	252,987	226,650

Note: Include provision for receivables of mobile interconnection charges of HK$44,617,000 (note 2(c)).

6. FINANCE COSTS

	2005	2004
	HK$'000	HK$'000
Interest on long-term bank loan and overdrafts	2,421	3,228
Interest element of finance leases	23	–
Interest on 10-year senior notes	52,372	–
Amortisation of incidental issuance costs	1,693	–
Total borrowing cost incurred	56,509	3,228
Less: Amount capitalised as fixed assets		
– Interest capitalised (note)	(2,047)	(2,553)
– Other incidental borrowing costs	–	(500)
Total borrowing cost capitalised	(2,047)	(3,053)
	54,462	175

Note: The entire sum of current year's interest from the long-term bank loan, which was fully repaid during January 2005 (note 25(a)), is capitalised as fixed assets.

7. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the overseas countries in which the Group operates.

The amount of tax (benefit)/expense recorded in the consolidated profit and loss account represents:

	2005	2004
	HK$'000	HK$'000
Current taxation:		
– Hong Kong profits tax	147	1,537
– Overseas taxation	919	596
– Underprovision of tax in prior years	333	1,221
Deferred taxation relating to the origination and reversal of temporary differences (note 24)	(8,124)	(1,311)
Tax (benefit)/expense	(6,725)	2,043

7. TAXATION (CONTINUED)

The following is the reconciliation between tax (benefit)/expense and accounting (loss) / profit at applicable tax rates:

	2005	2004
	HK$'000	HK$'000
(Loss)/profit before taxation	(213,077)	51,593
Calculated at the prevailing tax rates applicable to (loss)/profits in the countries concerned	(37,152)	9,696
Income not subject to taxation	(3,963)	(825)
Expenses not deductible for taxation purposes	1,788	730
Utilisation of unrecognised deferred tax assets in respect of tax losses of prior years	(4,981)	(9,066)
Unrecognised current year tax losses	37,183	27
Underprovision of tax in prior years	333	1,221
Others	67	260
Tax (benefit)/expense	(6,725)	2,043

8. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The (loss)/profit attributable to shareholders dealt with in the accounts of the Company was a loss of HK$33,056,000 (2004: a profit of HK$241,000).

9. DIVIDENDS

(a) Dividends attributable to the year:

	2005	2004
	HK$'000	HK$'000
2004, interim dividends, proposed after the balance sheet date, of HK$0.015 per ordinary share	–	9,158
	–	9,158

The board of directors has resolved not to declare any final dividend for the year ended 31 August 2005.

(b) Dividends attributable to the previous financial year, approved and paid during the year:

	2005	2004
	HK$'000	HK$'000
2003, final dividends, approved and paid during the year, of HK$0.075 per ordinary share	–	45,789
	–	45,789

10. (LOSS)/EARNINGS PER SHARE

	2005	2004
	HK$'000	HK$'000
(Loss)/profit attributable to shareholders	(206,352)	49,550

	2005	2004
	No. of shares in thousand	No. of shares in thousand
Weighted average number of shares in issue	613,525	610,095
Incremental shares from assumed exercise of share options	–	604
Incremental shares from assumed exercise of warrants	–	3,666
Diluted weighted average number of shares	613,525	614,365
Basic (loss)/earnings per shares	(33.6) cents	8.1 cents
Diluted (loss) /earnings per shares	(33.6) cents	8.1 cents

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

11. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2005	2004
	HK$'000	HK$'000
Wages and salaries	245,472	214,816
Unutilised annual leave	924	3,841
Retirement benefit costs – defined contribution plans (note 12)	27,437	26,287
Less: Staff costs capitalised as fixed assets	(20,846)	(18,294)
	252,987	226,650

Staff costs include directors' emoluments but exclude staff costs of HK$21,860,000 (2004: HK$10,952,918) recorded in network costs and HK$143,071,000 (2004: HK$83,953,378) recorded in advertising and marketing expenses.

12. RETIREMENT BENEFIT COSTS

The Group contributes to a defined contribution retirement scheme, an Occupational Retirement Scheme ("the ORSO Scheme"), which is available to certain of its employees. Under the ORSO Scheme, the employees are required to contribute 5% of their monthly salaries, while the Group's contributions are calculated at 10% and 5% of the monthly salaries of senior management staff and all other staff respectively. The employees are entitled to 100% of the employer's contributions after 10 years of completed service, or at a reduced scale after completion of 3 to 9 years' service. Contributions to the ORSO Scheme are reduced by contributions forfeited by those employees who leave the ORSO Scheme prior to vesting fully in the Group's contributions.

A mandatory provident fund scheme (the "MPF Scheme") has been established under the Hong Kong Mandatory Provident Fund Scheme Ordinance in December 2000. Then the existing employees of the Group in Hong Kong could elect to join the MPF Scheme, while all new employees joining the Group in Hong Kong from then onwards are required to join the MPF Scheme. Both the Group and the employees are required to contribute 5% of each individual's relevant income with a maximum amount of HK$1,000 per month as a mandatory contribution. Employees are entitled to 100% of the employer's mandatory contributions as soon as the amounts are paid to the MPF Scheme. Employees may also elect to contribute more than the minimum as a voluntary contribution.

The retirement schemes for staff of the Group in other countries follow the local statutory requirements of the respective countries.

12. RETIREMENT BENEFIT COSTS (CONTINUED)

The aggregate employer's contributions, net of forfeited contributions, which have been dealt with in the profit and loss account during the year are as follows:

	2005	2004
	HK$'000	HK$'000
Gross contributions	**27,789**	26,922
Less: Forfeited contributions utilised to offset the Group's contributions during the year	**(352)**	(635)
Net contributions charged to profit and loss account (note 11)	**27,437**	26,287

At 31 August 2005, there was no forfeited contribution available to offset future contributions by the Group to the schemes (2004: HK$12,000).

13. DIRECTORS' AND SENIOR MANAGEMENT's EMOLUMENTS

(a) Directors' remuneration

The remuneration of each director for the year ended 31 August 2005 is set out below:

Name of Director	Fee	Salary	Discretionary bonuses	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Wong Wai Kai, Ricky	–	5,856	418	585	6,859
Cheung Chi Kin, Paul	–	5,856	418	585	6,859
Chong Kin Chun, John (note (a))	–	2,223	126	154	2,503
Fung So Mui, Fion (note (a))	–	850	70	85	1,005
Sio Veng Kuan, Corinna	–	1,069	88	107	1,264
To Wai Bing (note (a))	–	1,337	110	134	1,581
Chan Kin Man	116	–	–	–	116
Cheng Mo Chi, Moses	139	–	–	–	139
Lee Hon Ying, John	116	–	–	–	116
Peh Jefferson Tun Lu	116	–	–	–	116

The remuneration of each director for the year ended 31 August 2004 is set out below:

Name of Director	Fee	Salary	Discretionary bonuses	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Wong Wai Kai, Ricky	–	5,856	–	544	6,400
Cheung Chi Kin, Paul	–	5,856	418	550	6,824
Chong Kin Chun, John	–	2,091	127	152	2,370
Fung So Mui, Fion	–	840	70	84	994
Sio Veng Kuan, Corinna	–	1,056	88	105	1,249
To Wai Bing	–	1,320	110	132	1,562
Chan Kin Man	116	–	–	–	116
Cheng Mo Chi, Moses	139	–	–	–	139
Lee Hon Ying, John	116	–	–	–	116

Note (a) Resigned on 28 July 2005.

No director waived any emoluments in respect of the years ended 31 August 2004 and 2005.

13. DIRECTORS' AND SENIOR MANAGEMENT's EMOLUMENTS (CONTINUED)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2004: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2004: one) individual during the year are as follows:

	2005	2004
	HK$'000	HK$'000
Basic salaries, other allowances and benefits in kind	**1,457**	1,114
Discretionary bonuses	**80**	232
Retirement benefit costs – defined contribution plans	**12**	111
	1,549	1,457

The emoluments fell within the following band:

	Number of individual	
	2005	2004
Emolument band		
HK$1,000,001 – HK$1,500,000	**–**	1
HK$1,500,001 – HK$2,000,000	**1**	–

14. GOODWILL – GROUP

	HK$'000
Cost:	
At 31 August 2004 and 31 August 2005	5,326
Accumulated amortisation:	
At 1 September 2004	3,195
Charge for the year (note 4 & 5)	1,065
At 31 August 2005	**4,260**
Net book amount:	
At 31 August 2005	**1,066**
At 31 August 2004	2,131

15. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and fittings HK$'000	Telecom-munications, computer and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:						
At 1 September 2004	83,708	64,699	13,238	1,660,799	7,773	1,830,217
Additions	462	3,701	2,122	411,550	1,291	419,126
Adjustment (note (a))	–	–	–	(4,825)	–	(4,825)
Disposals	–	(26)	(1)	(2,875)	(692)	(3,594)
Exchange adjustments	–	244	133	2,497	–	2,874
At 31 August 2005	**84,170**	**68,618**	**15,492**	**2,067,146**	**8,372**	**2,243,798**
Accumulated depreciation:						
At 1 September 2004	5,024	21,603	9,052	630,027	5,636	671,342
Charge for the year	1,678	8,445	1,390	224,444	1,346	237,303
Adjustment (note (a))	–	–	–	(654)	–	(654)
Disposals	–	(11)	(1)	(2,260)	(488)	(2,760)
Exchange adjustments	–	188	68	1,768	–	2,024
At 31 August 2005	**6,702**	**30,225**	**10,509**	**853,325**	**6,494**	**907,255**
Net book value:						
At 31 August 2005	**77,468**	**38,393**	**4,983**	**1,213,821**	**1,878**	**1,336,543**
At 31 August 2004	78,684	43,096	4,186	1,030,772	2,137	1,158,875

15. FIXED ASSETS (CONTINUED)

Company

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and fittings HK$'000	Telecom-munications, computer and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:						
At 1 September 2004	5,197	7,845	7,020	315,104	5,425	340,591
Additions	–	53	127	2,081	–	2,261
Adjustment (note (a))	–	–	–	(4,825)	–	(4,825)
Disposals	–	–	(2)	(230)	–	(232)
At 31 August 2005	**5,197**	**7,898**	**7,145**	**312,130**	**5,425**	**337,795**
Accumulated depreciation:						
At 1 September 2004	658	4,156	6,531	167,730	4,109	183,184
Charge for the year	104	698	146	20,301	866	22,115
Adjustment (note (a))	–	–	–	(654)	–	(654)
Disposals	–	–	(2)	(176)	–	(178)
At 31 August 2005	**762**	**4,854**	**6,675**	**187,201**	**4,975**	**204,467**
Net book value:						
At 31 August 2005	**4,435**	**3,044**	**470**	**124,929**	**450**	**133,328**
At 31 August 2004	4,539	3,689	489	147,374	1,316	157,407

(a) The adjustment of the cost and the depreciation charge for the year ended 31 August 2005 of the Group and the Company amounting to HK$4,825,000 and HK$654,000 represented the finalization of the estimated accrued cost of the submarine cable made in prior years.

(b) The net book values of leasehold land and buildings situated in Hong Kong are analysed as follows:

	Group		Company	
	2005	2004	2005	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Leases of between 10 to 50 years	**77,468**	78,684	**4,435**	4,539

(c) At 31 August 2005, the net book value of telecommunications, computer and office equipment under finance lease held by the Group amounted to HK$3,251,000 (2004: Nil).

16. INVESTMENTS IN SUBSIDIARIES

	Company 2005 HK$'000	Company 2004 HK$'000
Unlisted investments, at cost (note (a))	**51,791**	51,791
Amounts due from subsidiaries (note (b))	**1,154,774**	656,637
	1,206,565	708,428
Less: Impairment loss	**(5,326)**	–
	1,201,239	708,428

Notes:

(a) The following is a list of the principal subsidiaries which principally affected the results, assets or liabilities of the Group at 31 August 2005:

Name	Place of incorporation	Principal activities and place of operations	Particulars of issued share capital	Percentage of interest held
Attitude Holdings Limited	British Virgin Islands	Inactive	Ordinary US$1	100
Automedia Holdings Limited	British Virgin Islands	Investment holding in Hong Kong	Ordinary US$1	* 100
City Telecom (B.C.) Inc. #	Canada	Provision of international telecommunications and dial-up internet access services in Canada	Common CAD501,000	100
City Telecom (Canada) Inc. #	Canada	Maintenance of switching equipment and provision of operational services in Canada	Common CAD100	100
City Telecom Inc. #	Canada	Provision of international telecommunications and dial-up internet access services in Canada	Common CAD1,000	100
City Telecom International Limited	British Virgin Islands	Investment holding in Hong Kong	Ordinary US$5,294	* 100
Credibility Holdings Limited	British Virgin Islands	Investment holding in Hong Kong	Ordinary US$1	* 100
CTI Guangzhou Customer Services Co. Ltd. (translated from the registered name in Chinese) #	The People's Republic of China ("the PRC")	Provision of administrative support services in the PRC	Paid in capital of HK$8,000,000	* 100
CTI Marketing Company Limited	Hong Kong	Provision of media marketing services in Hong Kong	Ordinary HK$10,000	100
Golden Trinity Holdings Limited	British Virgin Islands	Investment holding in Hong Kong	Ordinary US$1	* 100
Hong Kong Broadband Network Limited	Hong Kong	Provision of international telecommunications and fixed telecommunications network services in Hong Kong	Ordinary HK$383,049	100
IDD 1600 Company Limited	Hong Kong	Provision of international telecommunications services in Hong Kong	Ordinary HK$2	100

* Shares held directly by the Company.

\# Subsidiaries not audited by KPMG.

(b) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

17. OTHER INVESTMENTS

	Group		Company	
	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Debt securities, at fair value unlisted outside Hong Kong				
– restricted (pledged) (note 30(a))	–	3,650	–	–
– unrestricted	**25,901**	21,954	**22,315**	21,954
	25,901	25,604	**22,315**	21,954

18. LONG TERM BANK DEPOSIT – GROUP AND COMPANY

The balance is a ten-year US$2 million (2004: US$2 million) (equivalent to HK$15,540,000) deposit placed with a bank in which the Group receives a floating rate deposit interest. An interest rate of 10% per annum has been guaranteed for the first year from the inception date on 22 August 2003. The deposit have a 10-year term maturing on 22 August 2013. The deposit will be terminated once the cumulative interest reaches the predetermined accrued interest cap at 13% of the principal amount or an aggregate sum of US$260,000 (equivalent to HK$2,020,200).

19. DEFERRED EXPENDITURE

	Group	
	2005	2004
	HK$'000	HK$'000
Balance at 1 September	**21,563**	–
Additions during the year	**12,495**	23,391
Less: Amortisation charge for the year (note 5)	**(12,927)**	(1,828)
Balance at 31 August	**21,131**	21,563

Deferred expenditure represents costs incurred for gifts given away as sales incentives to subscribers of the Group's fixed telecommunications network services. Such costs are treated as customer acquisition costs and are amortised over the period of the underlying service subscription agreements.

20. ACCOUNTS RECEIVABLE

At 31 August 2005, the aging analysis of the accounts receivable was as follows:

	Group		Company	
	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Current – 30 days	**57,028**	72,528	**13,336**	21,959
31 – 60 days	**14,775**	17,593	**888**	1,190
61 – 90 days	**5,824**	8,691	**325**	1,126
Over 90 days	**75,996**	58,996	**1,773**	1,487
	153,623	157,808	**16,322**	25,762
Less: Provision for doubtful debts (note)	**(73,434)**	(22,959)	**(1,069)**	(1,487)
	80,189	134,849	**15,253**	24,275

20. ACCOUNTS RECEIVABLE (CONTINUED)

Note: Provision for doubtful debts as at 31 August 2005 includes provision for mobile interconnection charges receivables of HK$44,617,000 (note 2(c)).

The majority of the Group's accounts receivables are due within 30 days from the date of billings. Receivables with subscribers that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

21. ACCOUNTS PAYABLE

At 31 August 2005, the aging analysis of the accounts payable was as follows:

	Group		Company	
	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
0 – 30 days	**6,641**	31,175	**6,542**	11,414
31 – 60 days	**19,469**	27,253	**8,979**	11,488
61 – 90 days	**5,041**	13,130	**4,555**	6,620
Over 90 days	**59,611**	50,901	**38,652**	43,055
	90,762	122,459	**58,728**	72,577

22. SHARE CAPITAL

	2005		2004	
	No. of shares	Amount HK$'000	No. of shares	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.10 each				
At 31 August 2004 and 31 August 2005	**2,000,000,000**	**200,000**	2,000,000,000	200,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
At 1 September	**610,573,361**	**61,057**	604,959,787	60,496
Exercise of share options (note (a))	**52,000**	**5**	640,000	64
Exercise of warrants (note (b))	**3,500,043**	**350**	4,973,574	497
At 31 August	**614,125,404**	**61,412**	610,573,361	61,057

Notes:

(a) During the year ended 31 August 2005, 52,000 ordinary shares (2004: 600,000 ordinary shares and 40,000 ordinary shares) were issued at a price of HK$0.58 per ordinary share (2004: HK$0.26 per ordinary share and HK$0.58 per ordinary share, respectively), to share option holders who had exercised their subscription rights. These issued shares rank pari passu with the then existing ordinary shares in issue.

(b) The Company effected a warrant issue at a price of HK$0.11 per warrant to certain qualifying shareholders (shareholders domiciled in Hong Kong) for cash during the year ended 31 August 2002. One warrant was offered for every five existing ordinary shares held on the date of record. The warrants entitled the holders to subscribe for ordinary shares of the Company (on a one to one basis) at an exercised price of HK$0.40 per share (subject to adjustment) at any time on or before 1 November 2004. If the warrants are fully exercised, the Company will receive cash, totalling HK$39,325,920, and issue 98,314,800 additional ordinary shares. During the year, 3,500,043 (2004: 4,973,574) warrants were exercised for an equivalent number of ordinary shares at a price of HK$0.40 per share. The shares so issued rank pari passu with the then existing ordinary shares in issue. The remaining outstanding warrants of 135,396 expired on 1 November 2004. There was 3,635,439 warrants outstanding as at 31 August 2004.

22. SHARE CAPITAL (CONTINUED)

(c) The movement of outstanding share options during the year was as follows:

Date of grant	Exercise price per share	Vesting period	Number of share option outstanding at 1 September 2004	Granted	Exercised	Number of share option outstanding at 31 August 2005	Number of share option vested at 31 August 2005
3 September 1998	HK$0.26	3 September 1998	190,000	–	–	190,000	190,000
10 September 1999	HK$2.10	10 September 1999	60,000	–	–	60,000	60,000
20 October 2000	HK$0.58	20 October 2000	350,000	–	52,000	298,000	298,000
3 June 2004	HK$1.47	1 May 2005 to 1 May 2006	6,000,000	–	–	6,000,000	5,000,000
21 October 2004	HK$1.54	21 October 2004 to 31 December 2006	–	14,670,000	–	14,670,000	7,400,000
5 January 2005	HK$1.54	5 January 2005 to 31 December 2006	–	16,000,000	–	16,000,000	8,000,000
			6,600,000	30,670,000	52,000	37,218,000	20,948,000

The share options granted on 3 September 1998, 10 September 1999 and 20 October 2000 were made under a share option scheme approved by the shareholders of the Company on 12 July 1997 (the "1997 Share Option Scheme") and are immediately exercisable.

At an Extraordinary General Meeting held on 23 December 2002, a new share option scheme (the "2002 Share Option Scheme") was approved by the shareholders of the Company and the 1997 Share Option Scheme was terminated on the same date. No further share option could be granted under the 1997 Share Option Scheme after the date of its termination, but all share options outstanding in respect of the 1997 Share Option Scheme as of 31 August 2005 shall continue to be exercisable in accordance with the terms of the 1997 Share Option Scheme.

The share options granted on 3 June 2004, 21 October 2004 and 5 January 2005 were made under the 2002 Share Option Scheme and they have a vesting period of approximately two years from the respective dates of grant.

During the year ended 31 August 2005, options were granted under the 2002 Share Option Scheme to eligible participants for the subscription of 30,670,000 shares of the Company at an exercise price of HK$1.54 each.

Each option entitles the holder to subscribe for one ordinary share of HK$0.10 each in the Company at a predetermined exercise price.

23. RESERVES

Group

	Share premium HK$'000	Warrant reserve HK$'000	Retained profits HK$'000	Exchange reserve HK$'000	Total HK$'000
At 1 September 2003	615,886	858	500,704	1,231	1,118,679
2003 final dividends paid (note 9)	–	–	(45,789)	–	(45,789)
2004 interim dividends paid (note 9)	–	–	(9,158)	–	(9,158)
Profit attributable to shareholders	–	–	49,550	–	49,550
Exercise of warrants	–	(493)	–	–	(493)
Premium on shares issued upon exercise of share options (note 22(a))	115	–	–	–	115
Premium on shares issued upon exercise of warrants (note 22(b))	1,985	–	–	–	1,985
Exchange adjustments on translation of the accounts of subsidiaries	–	–	–	(248)	(248)
At 31 August 2004	617,986	365	495,307	983	1,114,641
At 1 September 2004	617,986	365	495,307	983	1,114,641
Realisation of outstanding warrant reserve upon warrant expiration	–	(18)	18	–	–
Loss attributable to shareholders	–	–	(206,352)	–	(206,352)
Exercise of warrants	–	(347)	–	–	(347)
Premium on shares issued upon exercise of share options (note 22(a))	25	–	–	–	25
Premium on shares issued upon exercise of warrants (note 22(b))	1,397	–	–	–	1,397
Exchange adjustments on translation of the accounts of subsidiaries	–	–	–	(143)	(143)
At 31 August 2005	**619,408**	**–**	**288,973**	**840**	**909,221**

23. RESERVES (CONTINUED)

Company

	Share premium HK$'000	Warrant reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 September 2003	615,886	858	350,298	967,042
2003 final dividends paid (note 9)	–	–	(45,789)	(45,789)
2004 interim dividends paid (note 9)	–	–	(9,158)	(9,158)
Profit attributable to shareholders	–	–	241	241
Exercise of warrants	–	(493)	–	(493)
Premium on shares issued upon exercise of share options (note 22(a))	115	–	–	115
Premium on shares issued upon exercise of warrants (note 22(b))	1,985	–	–	1,985
At 31 August 2004	617,986	365	295,592	913,943
At 1 September 2004	617,986	365	295,592	913,943
Realisation of outstanding warrant reserve upon warrant expiration	–	(18)	18	–
Loss attributable to shareholders	–	–	(33,056)	(33,056)
Exercise of warrants	–	(347)	–	(347)
Premium on shares issued upon exercise of share options (note 22(a))	25	–	–	25
Premium on shares issued upon exercise of warrants (note 22(b))	1,397	–	–	1,397
At 31 August 2005	**619,408**	**–**	**262,554**	**881,962**

24. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the taxation rates prevailing in respective countries in which the Group operates.

The movement on the deferred tax liabilities/(assets) accounts is as follows:

	Group		Company	
	2005	2004	2005	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 September	**18,662**	20,274	**18,842**	20,190
Exchange differences	**1**	(301)	**–**	–
Deferred taxation credited to profit and loss account – relating to the origination and reversal of temporary differences (note 7)	**(8,124)**	(1,311)	**(8,850)**	(1,348)
At 31 August	**10,539**	18,662	**9,992**	18,842

24. DEFERRED TAXATION (CONTINUED)

Deferred income tax assets are recognised for tax loss carryforwards to the extent that it is probable that future taxable profits will be generated to utilize the tax loss carryforwards The Group has unrecognised tax losses carryforwards of HK$215,683,000 at 31 August 2005 (2004: HK$40,573,000) which can offset against future taxable income. These tax losses will expire in the following periods:

	Group	
	2005	2004
	HK$'000	HK$'000
After 5 years	934	133
From 2 to 5 years	2,863	2,597
No expiry date	211,886	37,843
	215,683	40,573

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

	Group					
	Accelerated depreciation allowances		Others		Total	
	2005	2004	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Deferred tax liabilities						
At 1 September	140,202	110,925	49	–	140,251	110,925
Charged to profit and loss account	18,267	29,590	35	49	18,302	29,639
Exchange differences	8	(313)	1	–	9	(313)
At 31 August	158,477	140,202	85	49	158,562	140,251

	Tax losses	
	2005	2004
	HK$'000	HK$'000
Deferred tax assets		
At 1 September	(121,589)	(90,651)
Credited to profit and loss account	(26,426)	(30,950)
Exchange differences	(8)	12
At 31 August	(148,023)	(121,589)

24. DEFERRED TAXATION (CONTINUED)

	Company	
	Accelerated depreciation allowances	
	2005	2004
	HK$'000	HK$'000
Deferred tax liabilities		
At 1 September	18,842	20,190
Credited to profit and loss account	(2,587)	(1,348)
At 31 August	16,255	18,842

	Tax losses	
	2005	2004
	HK$'000	HK$'000
Deferred tax assets		
At 1 September	–	–
Credited to profit and loss account	(6,263)	–
At 31 August	(6,263)	–

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	Group		Company	
	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Deferred tax asset	–	(229)	–	–
Deferred tax liabilities	10,539	18,891	9,992	18,842
	10,539	18,662	9,992	18,842

25. LONG-TERM DEBT AND OTHER LIABILITIES

	Group		Company	
	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Long-term bank loan – secured (note (a))	–	100,000	–	–
8.75% senior notes due 2015 (note (b))	945,348	–	945,348	–
Obligation under finance lease (note (c))	3,135	–	–	–
	948,483	100,000	945,348	–
Current portion of				
– long-term bank loan - secured	–	(13,333)	–	–
– obligation under finance lease	(1,194)	–	–	–
	947,289	86,667	945,348	–

At 31 August 2005, the Group's and the Company's long-term debt and other liabilities were repayable as follows:

	Group		Company	
	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Long-term bank loan – secured				
Within one year	–	13,333	–	–
In the second year	–	20,000	–	–
In the third to fifth year	–	60,000	–	–
After the fifth year	–	6,667	–	–
	–	100,000	–	–
Less: Current portion of long-term bank loan – secured	–	(13,333)	–	–
	–	86,667	–	–
8.75% senior notes due 2015				
After the fifth year	945,348	–	945,348	–
Obligation under finance lease				
Within one year	1,194	–	–	–
In the second year	1,218	–	–	–
In the third year	723	–	–	–
	3,135	–	–	–
Less: Current portion of obligation under finance lease	(1,194)	–	–	–
	1,941	–	–	–
	947,289	86,667	945,348	–

25. LONG-TERM DEBT AND OTHER LIABILITIES (CONTINUED)

(a) On 3 January 2005, the Group has repaid approximately HK$3.3 million of the outstanding long-term bank loan. On 20 January 2005, the Group completed a US$125 million notes offering of 8.75% senior notes due 2015 with net proceeds of approximately US$121 million after deduction of expenses and commissions (note (b)). The Group used the net proceeds, in part, to repay in full the then outstanding loan facility in the amount of HK$196.7 million on 24 January 2005.

In connection with the above draw-down of the loan facility, the Group entered into an interest rate swap agreement with a bank, under which, the Group makes a monthly interest payment at a fixed rate of 2.675% per annum on a notional amount of HK$100 million (which is reduced by the principal repayment schedule during the loan period), as at the effective date of the interest rate swap agreement, and receives monthly interest payments calculated at Hong Kong Interbank borrowing rate (HIBOR) during the period from March 2004 to December 2009. The interest rate swap agreement remains outstanding as at 31 August 2005.

(b) On 20 January 2005, the Group issued unsecured 10-year senior fixed rates notes (the "10-year senior notes") with a principle amount of US$125 million at an issue price equal to 100 per cent of the principal amount. The 10-year senior notes mature on 1 February 2015 and bear interest at the fixed rate of 8.75% per annum and such interest is payable semi-annually on 1 February and 1 August of each year, commencing 1 August 2005.

The 10-year senior notes are unconditionally and irrevocably guaranteed on a joint and several basis by the Company's subsidiaries (other than CTI Guangzhou Customer Services Co. Limited) as subsidiary guarantors.

The 10-year senior notes were issued as an underwritten transaction and the net proceeds were approximately US$121 million after deduction of expenses and commissions. The Group used the net proceeds, in part, to repay in full an existing loan facility in the outstanding amount of HK$196.7 million (note (a)), and intends to use the remaining net proceeds for capital expenditures, including expanding and upgrading the Group's Metro Ethernet network in Hong Kong, and for additional working capital and general corporate purposes.

(c) At 31 August 2005, the Group's finance lease liabilities were repayable as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within one year	1,246	–
In the second year	1,246	–
In the third year	727	–
	3,219	–
Future finance charges on finance lease	(84)	–
Present value of finance lease liabilities	3,135	–

The repayment of the principal obligations of finance lease liabilities is as follows:

Within one year	1,194	–
In the second year	1,218	–
In the third year	723	–
	3,135	–

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of (loss)/profit before taxation to net cash (outflow)/inflow generated from operations

	2005	2004
	HK$'000	HK$'000
(Loss)/profit before taxation	(213,077)	51,593
Goodwill amortisation charge	1,065	1,065
Depreciation of owned fixed assets	236,269	195,952
Depreciation of fixed assets held under finance lease	380	–
Amortisation of deferred expenditure	12,927	1,828
Interest income	(13,578)	(3,753)
Interest expense	374	175
Interest element of finance lease	23	–
Gain on disposal of fixed assets	(134)	(34)
Unrealised (gain)/losses on other investments	(300)	1,696
Amortisation of incidental issuance cost	1,693	–
Interest on 10-year senior notes	52,372	–
Net cash inflow before working capital changes	78,014	248,522
Increase in long-term receivable and prepayment	(6,893)	(6,206)
Increase in term deposits	(92,850)	–
Decrease/(increase) in accounts receivable, other receivables, deposits and prepayments	19,931	(50,382)
Increase in inventories	(1,957)	–
Increase in deferred expenditure	(12,495)	(23,391)
Increase in accounts payable, other payables, accrued charges and deposits received	5,258	30,957
(Decrease)/increase in deferred services income	(2,685)	29,257
Net cash (outflow)/inflow generated from operations	(13,677)	228,757

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(b) Analysis of changes in financing during the year

	Share capital (including share premium and warrant reserve)	Obligations under finance lease	Bank loan	Senior notes
	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 September 2003	677,240	–	–	–
Issue of new shares	2,168	–	–	–
Bank loan drawn down	–	–	100,000	–
Balance at 31 August 2004	679,408	–	100,000	–
Balance at 1 September 2004	679,408	–	100,000	–
Issue of new shares	1,430	–	–	–
Net proceeds of senior notes issue	–	–	–	943,655
Bank loan drawn down	–	–	100,000	–
Repayment of bank loan	–	–	(200,000)	–
Acquisition of fixed asset	–	3,632	–	–
Repayment of capital element of finance lease	–	(497)	–	–
Realisation of outstanding warrant reserve upon warrant expiration (note 23)	(18)	–	–	–
Amortisation of incidental issuance costs	–	–	–	1,693
Balance at 31 August 2005	**680,820**	**3,135**	**–**	**945,348**

27. FINANCIAL INSTRUMENTS

The Group manages its exposure to financial risks using a variety of techniques and instruments.

(a) Interest rate swap

As at 31 August 2005, the Group had an outstanding interest rate swap contract with notional principle amount of HK$86,666,667 (2004: HK$100,000,000). Under this arrangement, the Group will pay a fixed rate interest of 2.675% per annum on the notional amount on a monthly basis, and receiving a floating interest rate at HIBOR rate.

The purpose of the arrangement was to hedge the interest payments on the long-term bank loan which bears a floating interest rate as described in note 25. The said loan was fully repaid by 24 January 2005 but the interest rate swap contract remains valid. The maturity date of the contract will be on 1 December 2009.

(b) Forward foreign exchange contracts

As at 31 August 2005, the Group had outstanding forward foreign exchange contracts of RMB155,632,000 and US$13,421,000 (2004: Nil) that mature at various dates over the following one year. The purpose of the arrangement is to manage the Group's exposure to foreign currencies fluctuations.

28. CONTINGENT LIABILITIES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank guarantees provided to suppliers (note 30(a)(i) and (ii))	**6,200**	6,295	**6,200**	1,395
Bank guarantee in lieu of payment of utility deposits (note 30(a)(iii))	**3,772**	3,622	**–**	–
Corporate guarantee provided to a subsidiary for a long-term loan facility (note)	**–**	–	**–**	400,000
Corporate guarantee provided to a subsidiary for shared banking facility (note)	**–**	–	**69,930**	–
	9,972	9,917	**76,130**	401,395

Note: Corporate guarantee provided to a subsidiary represented the maximum amount of contingent liabilities of the Company had the shared banking facility of HK$69,930,000 as at 31 August 2005 (2004: the long-term loan facility of HK$400,000,000) been fully drawn. As at 31 August 2004, HK$100,000,000 of the HK$400,000,000 long-term loan facility (note 30(b)) was drawn by the subsidiary. As at 31 August 2005, HK$13,250,000 of the HK$69,930,000 shared banking facility (note 30(a)(i)) was utilised by the Company and the subsidiary.

29. COMMITMENTS

(a) Capital commitments

	Group		Company	
	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Purchase of telecommunications, computer and office equipment – contracted but not provided for	178,793	213,310	29	–

(b) Commitments under operating leases

(i) At 31 August 2005, the Group had future aggregate lease income receivable under non-cancellable operating leases as follows:

	2005	2004
	HK$'000	HK$'000
Leases in respect of telecommunications facilities and computer equipment which are receivable:		
– Within one year	934	–
– Later than one year and not later than five years	583	–
	1,517	–

(ii) At 31 August 2005, the Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group		Company	
	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Leases in respect of land and buildings which are payable:				
– Within one year	17,759	10,419	1,380	1,012
– Later than one year and not later than five years	22,623	7,965	1,320	224
	40,382	18,384	2,700	1,236
Leases in respect of telecommunications facilities and computer equipment which are payable:				
– Within one year	25,895	36,479	2,794	6,132
– Later than one year and not later than five years	7,127	8,120	–	–
– More than five years	7,111	7,800	–	165
	40,133	52,399	2,794	6,297
	80,515	70,783	5,494	7,533

29. COMMITMENTS (CONTINUED)

(c) Program fee commitments

The Group entered into several long-term agreements with program content providers with respect to the granting of the program rights and the use of certain program contents. Minimum amounts of program fees to be paid by the Group are analysed as follows:

	2005	2004
	HK$'000	HK$'000
Program fee in respect of program rights which are payable:		
– Within one year	13,055	15,542
– Later than one year and not later than five years	6,259	18,869
	19,314	34,411

30. PLEDGE OF ASSETS

(a) As at 31 August 2005, the Group had pledged bank deposits of US$9,900,000 (equivalent to HK$76,923,000), RMB4,705,000 (equivalent to HK$4,524,000) and HK$9,000,000 as security of the following significant banking facilities:

(i) bank facility of US$9,000,000 (equivalent to HK$69,930,000) granted by the bank for issuance of bank guarantees to third party suppliers, letters of credit, short term loan, overdraft, foreign exchange and interest rate hedging arrangements (as of 31 August 2005, bank guarantee of HK$1,900,000 and letters of credit of HK$11,350,000 were issued against this bank facility);

(ii) bank guarantees of HK$4,300,000 issued by the bank to third party suppliers of the Company and one of its subsidiaries for payment of certain products and services procured by the Group from these third party suppliers;

(iii) bank guarantees of HK$3,772,000 issued by the bank to certain utility vendors of the Group in lieu of payment of utility deposits; and

(iv) outstanding forward foreign exchange contracts of RMB155,632,000.

As at 31 August 2004, the Group had pledged bank deposits of US$800,000 (equivalent to HK$6,240,000) and HK$1,395,000, and a charge over an investment with market value of US$468,000 (equivalent to HK$3,650,000), as security for:

(i) bank guarantees of HK$6,295,000 issued by the banks to third party suppliers of the Group for payment of certain products and services procured by the Group from these third party suppliers; and

(ii) bank guarantees of HK$3,622,000 issued by the bank to certain utility vendors in lieu of payment of utility deposits.

During the year ended 31 August 2005, the charge over an investment with market value of US$468,000 (equivalent to HK$3,650,000) has been released.

(b) On 9 October 2002, the Group entered into a HK$200,000,000 long-term loan facility (the "2002 facility") with The Hongkong and Shanghai Banking Corporation Limited ("HSBC") to provide funding for further development of the fixed telecommunications network of a wholly-owned subsidiary of the Company. According to the agreement, all amounts under the 2002 facility should be drawn by 31 December 2004. The principal balance drawn down is to be repaid in 60 equal monthly instalments beginning in January 2005. As at 31 August 2004, the amount drawn down and outstanding was HK$100,000,000. The Group drew down a further HK$40,000,000 in September 2004 and the remaining HK$60,000,000 in December 2004.

On 27 July 2004, the Group entered into an additional HK$200,000,000 long-term loan facility (the "2004 facility") with HSBC to provide funding for the same purpose. All amounts under the facility were required to be drawn by 31 December 2006. The principal balance drawn down is to be repaid in 60 equal monthly instalments beginning in January 2007. The Company has not drawn any amount under the facility during the year ended 31 August 2005.

30. PLEDGE OF ASSETS (CONTINUED)

(b) (CONTINUED)

On 3 January 2005, approximately HK$3.3 million of the 2002 facility was repaid. On 20 January 2005, the Group completed a US$125 million notes offering of 8.75% senior notes due 2015, with net proceeds of approximately US$121 million after deduction of expenses and commissions. The Group used the net proceeds, in part, to repay in full the outstanding bank loan in the amount of HK$196.7 million on 24 January 2005.

Both the 2002 and 2004 facilities were cancelled upon the request by the Company in January 2005 and the fixed and floating charge over all assets of the Company for these facilities has been released accordingly.

(c) As at 31 August 2004, the short-term bank loan was secured by a bank deposit of HK$19,170,000. The short-term bank loan was subsequently fully repaid on 24 March 2005, and the related pledged bank deposit was released accordingly.

31. PENDING LITIGATIONS

(a) In July 1998, Cable & Wireless HKT, a Hong Kong company, commenced proceedings against the Company and served a statement of claim which alleged that the Company had breached the terms of a contract it had with Cable & Wireless HKT and committed an economic tort. The Company denied these allegations in a comprehensive defence which included a counterclaim lodged against the plaintiff seeking damages for anti-competitive practices conducted by Cable & Wireless HKT in Hong Kong. Neither the claim amount made by Cable & Wireless HKT nor the counterclaim amount made by the Company has been quantified. The directors believe that the allegations against the Company are without merit and intend to defend the litigation vigorously. The case is currently in its discovery phase and no provision against the claim has been made in the accounts as the directors do not consider the liability to be probable.

(b) In January 1999, Jade Com Development Limited ("Jade Com") commenced proceedings against the Company and two directors of the Company, alleging repudiation of an international carrier service agreement executed between Jade Com and Attitude Holdings Limited, a wholly-owned subsidiary of the Company. Jade Com claimed damages for breach of contract and misrepresentation and alleged that the Company has a remaining commitment of approximately US$3.6 million under the agreement. The Company filed a defence in May 1999 on the basis that Jade Com had breached a condition of the agreement whereby Jade Com did not obtain the necessary legal approvals and licenses necessary for the provision of their services. In February 2001, the parties consented to adjourn the case indefinitely with liberty to restore, accordingly, no provision has been made in the accounts with respect to the litigation.

32. BARTER TRANSACTIONS

(a) During the year ended 31 August 2004, HKBN entered into two sets of agreements with a third party (the "Contract Party 1"). Pursuant to one agreement ("First Agreement"), the Contract Party 1 agreed to sell to HKBN a set of un-activated telecommunications facility (the "Facility") at a cash consideration of approximately HK$42.4 million (the "Facility Considerations"). The full amount of the Facility Considerations was paid by HKBN during the year ended 31 August 2004. In conjunction with the First Agreement, HKBN also entered into an operations and maintenance agreement with the Contract Party 1 for the provision of ongoing operations and maintenance services for the Facility at a fee of approximately HK$1 million per annum, commencing 1 September 2007 onward.

Another agreement ("Second Agreement") was entered into on the same date by both contract parties whereby HKBN undertakes to provide certain telecommunication services to the Contract Party 1 (the "Services") with fees computed based on unit service charges specified in the Second Agreement. The Contract Party 1 is required to pay to HKBN a guarantee minimum service fee of approximately HK$42.4 million over a period of three years, commencing 1 September 2004. A prepayment of the service charges of HK$36.5 million (the "Prepaid Charges") was paid by the Contract Party 1 to HKBN during the year ended 31 August 2004.

The Directors of the Company made an assessment of the fair values of the items under exchange and have drawn a conclusion that no fair values could be assigned to them. Accordingly, the Facility was not recognised as an asset and no revenue or deferred revenue was recognised in the accounts of the Group as at and for the year ended 31 August 2004 and 2005. The difference between the amounts paid for the Facility Considerations and the Prepaid Charges received, amounting to approximately HK$5.9 million, was recorded as a long-term receivable balance in the balance sheet as at 31 August 2004 and 2005. The balance will be paid by the Contract Party 1 prior to the end of the service period on 1 September 2007.

32. BARTER TRANSACTIONS (CONTINUED)

(b) During the year ended 31 August 2005, HKBN entered into two agreements with a third party (the "Contract Party 2"). Pursuant to the agreements,

i. HKBN and the Contract Party 2 agreed to make available certain telecommunications services (the "Services Component") to each other on a barter basis at no consideration for a period of ten years, commencing 1 January 2005.

ii. HKBN agreed to provide network capacity to the Contract Party 2 for a service term of fifteen years from the respective activation of the relevant network capacity, and, in exchange, the Contract Party 2 agreed to provide HKBN the right to use telecommunications facilities for a term of fifteen years from the respective activation of the relevant facilities (the "Capacity Component"). The transaction was entered into on a barter basis with no consideration being exchanged.

The directors of the Company made an assessment and determined that since the Services Component (for (i) above) and Capacity Component (for (ii) above) involves exchange of services are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. Accordingly, both components were not recognised as an asset or an expense and no revenue or deferred revenue was recognised in the accounts of the Group as at and for the year ended 31 August 2005.