Notes to the Financial Statements

For the year ended 31 December 2006

CORPORATE INFORMATION

The Company is incorporated in Bermuda as an exempted company with limited liability and its ordinary shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's principal place of business is located at 3705 Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong. The principal activity of the Company is investment holding. Details of the principal subsidiaries of the Company are disclosed in note 11 to the financial statements.

1. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2005 financial statements. The adoption of the new / revised HKFRS that are relevant to the Group and effective from the current year has had no significant effects on the Group's results and financial position for the current and prior years. A summary of the principal accounting policies adopted by the Group is set out below.

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 each year.

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 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 on the basis of the respective equity owned by the minority shareholders. The Group assumes any excess, and any further losses applicable to the minority shareholders, which exceed the minority interest in the equity of a subsidiary.

Subsidiaries

A subsidiary is an entity 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.

In the Company's balance sheet, investments in subsidiaries are stated at cost less accumulated impairment losses. The carrying amounts of the investments are reduced to their respective recoverable amounts on an individual investment basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

1. 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. Repairs and maintenance are charged to the income statement during the year in which they are incurred.

Depreciation is provided to write off the cost, net of accumulated impairment losses, of property, plant and equipment over their estimated useful lives as set out below from the date on which they are available for use 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%
Motor vehicles	20%

Assets held under finance leases are depreciated over the shorter of their expected useful lives or the term of the leases.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Research and development costs

Research costs are expensed as incurred. Costs incurred on development activities, which involve the application of research findings to a plan or design for the production of new or substantially improved products and processes, are capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The capitalised expenditure includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised as an expense in the period in which it is incurred. When the asset is available for use, the capitalised development costs are amortised and subject to impairment review on the same basis as intangible assets acquired separately.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis. Financial assets and financial liabilities are measured as follows:

Loans and receivables

Loans and receivables including trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in the income statement.

Impairment of financial assets

At each balance sheet date, the Group assesses whether there is objective evidence that financial assets are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities

The Group's financial liabilities include trade and other payables, bank loans and other borrowings and obligations under finance leases. All financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expires or when the Group transfers the contractual rights to future cash flows to a third party. A financial liability is derecognised when, and only when, the liability is extinguished.

Cash equivalents

For the purpose of the cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

Impairment of non-financial assets

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets with finite useful lives and investment in subsidiaries to determine whether there is any indication that such assets have suffered impairment losses or that impairment losses previously recognised no longer exist or may be reduced. If the recoverable amount of an asset is estimated to be less than its carrying amount, the latter 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.

Revenue recognition

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

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

Interest income is accrued on a time proportion basis on the principal outstanding and at the effective 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 leases obligation. Finance costs, which represent the difference between the total leasing commitments and the fair values of the assets acquired, are charged to the income statement over the terms 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.

Lease incentives are recognised in the income statement as an integral part of the net consideration agreed for the use of the leased asset.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Hong Kong dollars which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

On consolidation, the balance sheets of entity denominated in currencies other than Hong Kong dollars, being the presentation currency, 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 such exchange differences are recognised in a separate component of equity.

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 at the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent 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 employee are 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 contributions"). The Group makes the same additional contribution if the employee chooses to make a voluntary contribution of up to a maximum limit of HK$1,000.

Under the MPF Schemes, employees are entitled to the Group's mandatory contributions in accordance with the provisions in the Hong Kong Mandatory Provident Fund Schemes Ordinance, and are entitled to 100% of the Group's voluntary contributions after completion of the first year of service.

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

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

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at the grant date, taking into account the terms and conditions upon which the options were granted. Where employees have to meet vesting conditions before becoming unconditionally entitled to share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged / credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the equity. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest with a corresponding adjustment to the equity.

Related parties

A party is related to the Group if (a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by or is under common control with the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group; (b) the party is an associate of the Group; (c) the party is a joint venture in which the Group is an investor; (d) the party is a member of the key management personnel of the Group; (e) the party is a close member of the family of any individual referred to in (a) or (d); (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or (g) the party is a post-employment benefit plan for the benefit of employees of the Group or of any entity that is a related party of the Group.

Critical accounting estimates and judgements

Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of the trade receivables and on management judgments. A considerable amount of judgment is required in assessing the ultimate realisation of receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

Recognition of deferred tax assets

Deferred tax assets are recognised principally for unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgment regarding the future performance of the particular legal subsidiary in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and, to the extent that there is sufficient evidence that taxable profits will be available within the utilisation periods to allow utilisation of the carry-forward tax losses, the asset balance will be increased and such increase will be recognised in the income statement.

Future changes in HKFRS

At the date of authorisation of these financial statements, the Group has not early adopted the new / revised standards and interpretations issued by HKICPA that are not yet effective for the current year. The Group anticipates that the adoption of these new / revised HKFRS in future periods will have no material impact on the results of the Group.

2. TURNOVER AND REVENUE

Turnover and revenue, recognised by category, are analysed as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Turnover		
Telecommunication services income	**696,494**	414,072
Other revenue	**6,316**	8,518
	702,810	422,590
Interest income	**2,326**	589
Revenue	**705,136**	423,179

3. PROFIT BEFORE TAXATION

This is stated after charging / (crediting):

	Group	
	2006	2005
	HK$'000	*HK$'000*
(a) Finance costs		
Interest on bank loan and other borrowing wholly repayable within five years	**2,832**	–
Finance charges on obligations under finance leases	**27**	34
	2,859	34
(b) Staff costs		
Employee salary and other benefits	**69,343**	62,995
Retirement benefit schemes contributions	**2,005**	1,860
	71,348	64,855
(c) Other items		
Auditors' remuneration	**1,897**	928
Less: non-audit services fee capitalised	**(730)**	–
	1,167	928
Amortisation of intangible assets included in other operating expenses	**4,411**	–
Cost of services provided	**509,718**	267,649
Depreciation of property, plant and equipment	**5,304**	4,756
Write-off and provision for doubtful debts	**1,685**	4,694
Gain on disposal of property, plant and equipment	**(8)**	(27)
Operating lease charges on premises	**5,475**	4,204
Exchange (gains) / losses, net	**(618)**	597
Gain on disposal of an available-for-sale investment included in other income	**–**	(5,200)
Impairment loss on an available-for-sale investment	**–**	1,894

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

4. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

The aggregate amounts of remuneration received and receivable by the Company's directors are as follows:

	2006			
	Directors' fees	**Salaries, gratuities and other emoluments**	**Retirement benefit scheme contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Richard John Siemens	–	1,500	24	1,524
Kuldeep Saran	–	1,826	24	1,850
Lim Shyang Guey	–	1,950	24	1,974
Non-executive director				
William Bruce Hicks	–	–	–	–
Independent non-executive directors				
Shane Frederick Weir	100	–	–	100
John William Crawford J.P.	200	–	–	200
Gerald Clive Dobby	100	–	–	100
	400	**5,276**	**72**	**5,748**

	2005			
	Directors' fees	Salaries, gratuities and other emoluments	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Richard John Siemens	–	1,500	24	1,524
Kuldeep Saran	–	1,500	24	1,524
Lim Shyang Guey	–	1,794	24	1,818
Non-executive director				
William Bruce Hicks	–	–	–	–
Independent non-executive directors				
Shane Frederick Weir	100	–	–	100
Matthew Brian Rosenberg	100	–	–	100
John William Crawford J.P.	100	–	–	100
Gerald Clive Dobby	4	–	–	4
	304	4,794	72	5,170

4. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION *(continued)*

Individuals with highest emoluments

Of the five *(2005: six)* individuals with the highest emoluments, two (*2005: three*) are directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other three (*2005: three*) individuals are as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries, gratuities and other emoluments	**5,116**	5,164
Retirement benefit scheme contributions	**122**	79
	5,238	5,243

The emoluments of the three (*2005: three*) individuals with the highest emoluments are all within the band of HK$1,500,001 to HK$2,000,000.

The executive directors of the Company, together with the above-mentioned three (*2005: three*) highest paid individuals, are regarded as the key management personnel of the Group for disclosure purpose.

5. TAXATION (CHARGES) / CREDIT

Hong Kong Profits Tax has not been provided as the Group's assessable profit for the year is wholly absorbed by unrelieved tax losses brought forward from previous years.

Overseas taxation represents income taxes of certain subsidiaries, calculated at the tax rates prevailing in the countries in which the subsidiaries operate.

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current tax		
Overseas income taxes	**(3,964)**	–
Deferred tax		
Depreciation allowances	**(9)**	(69)
Tax losses	**(26)**	8,613
	(35)	8,544
	(3,999)	8,544

Further details of the Group's deferred taxation status are set out in note 23.

5. TAXATION (CHARGES) / CREDIT *(continued)*

Reconciliation of effective tax rate

	Group	
	2006	2005
	%	%
Applicable tax rate	**27**	18
Non-deductible expenses	**3**	16
Tax exempt revenue	**(4)**	(17)
Unrecognised tax losses arising in current year	**5**	3
Utilisation of previously unrecognised tax losses	**(17)**	(6)
Recognition of previously unrecognised tax losses	**(2)**	(11)
Recognition of previously unrecognised deferred tax assets	**(4)**	(25)
Others	**1**	–
Effective tax rate for the year	**9**	(22)

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

6. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company includes a profit of HK$20,355,000 (*2005: HK$17,667,000*) which has been dealt with in the financial statements of the Company.

7. EBITDA

EBITDA represents earnings before interest expenses, taxation, depreciation, amortisation and impairments.

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2006 is based on the consolidated profit attributable to equity holders of the Company of HK$40,632,000 (*2005: HK$47,076,000*) and on the 470,894,200 (*2005: 470,894,200)* shares in issue during the year.

The diluted earnings per share for the years ended 31 December 2006 and 2005 are not presented as the exercise prices of the share options are higher than the average market price of the shares.

9. PROPERTY, PLANT AND EQUIPMENT

	Group				
	Leasehold improvements *HK$'000*	**Machinery and equipment** *HK$'000*	**Office equipment, furniture and fittings** *HK$'000*	**Motor vehicles** *HK$'000*	**Total** *HK$'000*
Reconciliation of carrying amount					
As at 1 January 2005	–	3,011	4,905	–	7,916
Exchange adjustments	–	(1)	(55)	–	(56)
Additions	2,091	3,856	3,098	–	9,045
Disposals	(752)	(165,764)	(3,228)	–	(169,744)
Write-back of accumulated depreciation on disposals	752	165,764	3,223	–	169,739
Depreciation	(75)	(2,179)	(2,502)	–	(4,756)
As at 31 December 2005	2,016	4,687	5,441	–	12,144
Reconciliation of carrying amount					
As at 1 January 2006	2,016	4,687	5,441	–	12,144
Exchange adjustments	–	(1)	130	–	129
Additions	–	5,086	2,326	2,800	10,212
Disposals	–	–	(124)	–	(124)
Write-back of accumulated depreciation on disposals	–	–	60	–	60
Depreciation	(685)	(2,100)	(1,959)	(560)	(5,304)
As at 31 December 2006	**1,331**	**7,672**	**5,874**	**2,240**	**17,117**
Representing:					
Cost	2,091	44,730	21,301	–	68,122
Accumulated depreciation	(75)	(40,043)	(15,860)	–	(55,978)
As at 1 January 2006	2,016	4,687	5,441	–	12,144
Cost	2,091	50,277	24,257	2,800	79,425
Accumulated depreciation	(760)	(42,605)	(18,383)	(560)	(62,308)
As at 31 December 2006	**1,331**	**7,672**	**5,874**	**2,240**	**17,117**

The carrying amount of the Group's property, plant and equipment as at 31 December 2006 includes an amount of HK$596,000 (*2005: HK$794,000*) in respect of assets held under finance leases.

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

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

	Company			
	Leasehold improvements *HK$'000*	**Office equipment, furniture and fittings** *HK$'000*	**Motor vehicles** *HK$'000*	**Total** *HK$'000*
Reconciliation of carrying amount				
As at 1 January 2005	–	153	–	153
Additions	1,631	1,866	–	3,497
Disposals	–	(1,282)	–	(1,282)
Write-back of accumulated depreciation on disposals	–	1,279	–	1,279
Depreciation	–	(92)	–	(92)
As at 31 December 2005	1,631	1,924	–	3,555
Reconciliation of carrying amount				
As at 1 January 2006	1,631	1,924	–	3,555
Additions	–	393	2,800	3,193
Disposals	–	(33)	–	(33)
Write-back of accumulated depreciation on disposals	–	33	–	33
Depreciation	(593)	(208)	(560)	(1,361)
As at 31 December 2006	**1,038**	**2,109**	**2,240**	**5,387**
Representing:				
Cost	1,631	2,347	–	3,978
Accumulated depreciation	–	(423)	–	(423)
As at 1 January 2006	1,631	1,924	–	3,555
Cost	1,631	2,707	2,800	7,138
Accumulated depreciation	(593)	(598)	(560)	(1,751)
As at 31 December 2006	**1,038**	**2,109**	**2,240**	**5,387**

10. INTANGIBLE ASSETS

	Group		
	Development costs	**Customer contracts**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Reconciliation of carrying amount			
Additions	3,137	52,933	56,070
Amortisation	–	(4,411)	(4,411)
As at 31 December 2006	**3,137**	**48,522**	**51,659**
Representing:			
Costs	3,137	52,933	56,070
Accumulated amortisation	–	(4,411)	(4,411)
As at 31 December 2006	**3,137**	**48,522**	**51,659**

Development costs represent costs incurred in 2006 for the development of IP-based communication products and services, which services were launched in December 2006. Amortisation of the development costs will commence in 2007.

Customer contracts represent intangible assets purchased pursuant to an asset purchase agreement with a third party to acquire certain telecommunication service assets in connection with the provision of long distance telecommunication services in the United States. The costs are capitalised and amortised under the straight-line method over 5 years.

11. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**–**	–
Due from subsidiaries	**683,683**	700,720
Less: Provisions	**(607,896)**	(635,347)
	75,787	65,373

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for an amount of HK$57,948,000 (*2005: HK$57,948,000*) which bears interest at 5.5% per annum, is unsecured and repayable on 23 April 2008. The carrying values of the amounts due approximate to their fair values.

Notes to the Financial Statements (continued)

For the year ended 31 December 2006

11. INTERESTS IN SUBSIDIARIES *(continued)*

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

Name of subsidiary	Place of incorporation / operation	Issued and fully paid up share capital	Percentage of share capital held by the Company		Principal activities
			Directly	*Indirectly*	
ZONE USA, Inc.	United States of America	US$10	–	100%	Investment holding
ZONE Telecom Pte Ltd	Singapore	S$100,000	–	100%	Provision of telecommunication services
ZONE Telecom, Inc.	United States of America	US$10	–	100%	Provision of telecommunication services
ZONE Resources Limited	British Virgin Islands	US$1	–	100%	Provision of IP-based communication services
ZONE Limited	Hong Kong	HK$2	–	100%	Provision of telecommunication 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$10,102	–	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 consultancy services

The above summary includes those subsidiaries which, in the opinion of the Company's directors, principally affected the results or form 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 excessive length.

12. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**76,119**	54,364	**–**	–
Other receivables				
Deposits, prepayments and other debtors	**10,511**	12,776	**1,389**	2,079
	86,630	67,140	**1,389**	2,079

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	
	2006	2005
	HK$'000	*HK$'000*
Current	**68,042**	46,109
1 to 3 months	**7,858**	8,020
More than 3 months but less than 12 months	**219**	235
	76,119	54,364

The Group's credit policy is set out in note 21.

13. PLEDGED DEPOSITS

At the balance sheet date, the Group and the Company pledged deposits amounting to HK$1,547,000 (*2005: HK$2,476,000*) and HK$886,000 (*2005: HK$1,369,000*), respectively, to banks for guarantees made by them to certain telecommunication carriers for due payments by the Group.

14. TRADE AND OTHER PAYABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**44,924**	25,930	**–**	–
Other payables				
Accrued charges and other creditors	**54,762**	33,572	**1,232**	1,885
Due to subsidiaries	**–**	–	**779**	784
	99,686	59,502	**2,011**	2,669

The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

14. TRADE AND OTHER PAYABLES *(continued)*

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current	**26,733**	16,756
1 to 3 months	**17,992**	9,011
More than 3 months but less than 12 months	**199**	163
	44,924	25,930

15. BANK BORROWINGS

	Group	
	2006	2005
	HK$'000	*HK$'000*
The bank loan is repayable as follows:		
Within one year	**9,188**	–
After one year but within two years	**9,860**	–
After two years but within five years	**12,717**	–
	31,765	–

	Group	
	2006	2005
	HK$'000	*HK$'000*
Reported as:		
Current liabilities	**9,188**	–
Non-current liabilities	**22,577**	–
	31,765	–

The loan requires monthly principal and interest payments of US$118,575. It also requires a quarterly payment equal to 10% of EBITDA for the previous quarter. The loan bears interest at 7% per annum and is secured by all assets of its two subsidiaries in the U.S.A., with an aggregate carrying value of HK$172,502,000 (consisting of intangible assets of HK$48,522,000, property, plant and equipment of HK$9,588,000, trade and other receivables of HK$69,706,000 and bank balances and cash of HK$44,686,000).

16. OBLIGATIONS UNDER FINANCE LEASES

The obligations under finance leases are repayable as follows:

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Finance lease due:				
Within one year	**218**	218	**198**	191
After one year but within two years	**218**	218	**198**	198
After two years but within five years	**217**	436	**221**	420
	653	872	**617**	809
Future finance charges	**(36)**	(63)	**–**	–
Present value of lease obligations	**617**	809	**617**	809

	Group	
	2006	2005
	HK$'000	*HK$'000*
Reported as:		
Current liabilities	**198**	191
Non-current liabilities	**419**	618
	617	809

The finance leases payments are repayable in 60 instalments, mature in December 2009 and bear interest at 3.7% per annum. The carrying value of the finance leases approximate their fair values.

17. SHARE CAPITAL

	2006		2005	
	Number of shares	**Amount** *HK$'000*	Number of shares	Amount *HK$'000*
Authorised				
Ordinary shares				
As at 1 January and 31 December, at HK$0.01 each	**12,000,000,000**	**120,000**	12,000,000,000	120,000
Issued and fully paid				
Ordinary shares				
As at 1 January and 31 December, at HK$0.01 each	**470,894,200**	**4,709**	470,894,200	4,709

18. SHARE OPTIONS

(a) The 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 in a special general meeting held on 28 June 2002 but the share options granted that were 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"). Under the New Share Option Scheme, the directors of the Company may at their 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.

(b) 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 activated their share option scheme powers pursuant to the terms and conditions of the Subsidiary Scheme Rules and Procedures since adoption.

18. SHARE OPTIONS *(continued)*

Summary of principal terms

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

(i) Purpose

The schemes are 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 worthy employees for high levels of performance in order to enhance long-term shareholders 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 or the relevant subsidiary, shall not in aggregate exceed 10% of the shares in issue as at the date of approval of the scheme unless shareholder approval has been obtained. As at 23 March 2007, 13,674,261 shares of the Company, representing about 2.6% of its issued share capital, are available for issue under the New Share Option Scheme.

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

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

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

A share option shall be deemed to have been granted and accepted and to have taken effect when the duplicate letter comprising acceptance of the offer of the grant of a share option duly signed by the grantee (for the New Share Option Scheme) or the acceptance of the offer of the grant of a share option duly acknowledged by the grantee in such form as the board may from time to time determine (for the 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.

18. SHARE OPTIONS *(continued)*

Summary of principal terms *(continued)*

(iv) Basis of determining the subscription price

New Share Option Scheme

Subject to the terms of the scheme and the provisions of the Listing Rules, the subscription price in respect of any share option shall be at least the 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 is 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.

During the year, no share options were held by the directors, the 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:

			Number of share options				
Date of grant	**Exercisable period**	**Exercise price** *HK$*	**As at 1 January 2005**	**Lapsed during 2005**	**As at 31 December 2005**	**Lapsed during 2006**	**As at 31 December 2006**
25.10.1999	25.10.2000 – 24.10.2009	1.40	15,000	–	15,000	–	15,000
16.11.1999	16.11.2000 – 24.10.2009	1.60	7,500	–	7,500	–	7,500
23.12.1999	23.12.2000 – 24.10.2009	2.00	370,000	(335,000)	35,000	–	35,000
28.04.2000	28.04.2001 – 24.10.2009	3.30	147,500	(107,500)	40,000	–	40,000
09.08.2000	09.08.2001 – 24.10.2009	2.30	30,000	–	30,000	–	30,000
25.10.2000	25.10.2001 – 24.10.2009	1.20	20,000	–	20,000	–	20,000
Total			590,000	(442,500)	147,500	–	147,500

The options outstanding as at 31 December 2006 had an exercise price of between HK$1.20 and HK$3.30 (*2005: between HK$1.20 and HK$3.30*) and a weighted average remaining contractual life of 2.83 years (*2005: 3.83 years*).

19. RESERVES

	Share premium HK$'000	Exchange reserve HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Accumulated profits / (losses) HK$'000	Total HK$'000
Group						
As at 1 January 2005	23,461	(1,384)	6	607,462	(590,631)	38,914
Exchange differences on translation of foreign subsidiaries	–	373	–	–	–	373
Profit for the year	–	–	–	–	47,076	47,076
As at 31 December 2005	23,461	(1,011)	6	607,462	(543,555)	86,363
Exchange differences on translation of foreign subsidiaries	–	413	–	–	–	413
Profit for the year	–	–	–	–	40,632	40,632
Transfer between reserves	–	–	–	(523,973)	523,973	–
As at 31 December 2006	**23,461**	**(598)**	**6**	**83,489**	**21,050**	**127,408**
Company						
As at 1 January 2005	23,461	–	6	607,462	(561,995)	68,934
Profit for the year	–	–	–	–	17,667	17,667
As at 31 December 2005	23,461	–	6	607,462	(544,328)	86,601
Profit for the year	–	–	–	–	20,355	20,355
Transfer between reserves	–	–	–	(523,973)	523,973	–
As at 31 December 2006	**23,461**	**–**	**6**	**83,489**	**–**	**106,956**

Contributed surplus as at 31 December 2005 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.

Pursuant to a board resolution on 21 December 2006, the contributed surplus amounting to HK$523,973,000 was approved for application towards set-off against accumulated losses of the Company.

19. RESERVES *(continued)*

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:

	2006	2005
	HK$'000	*HK$'000*
Contributed surplus	**83,489**	607,462
Accumulated losses	**–**	(544,328)
	83,489	63,134

20. CASH GENERATED FROM OPERATIONS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Profit before taxation	**44,631**	38,532
Interest income	**(2,326)**	(589)
Interest expenses	**2,832**	–
Interest on obligations under finance leases	**27**	34
Depreciation	**5,304**	4,756
Amortisation of intangible assets	**4,411**	–
Gain on disposal of property, plant and equipment	**(8)**	(27)
Gain on disposal of an available-for-sale investment	**–**	(5,200)
Impairment loss on an available-for-sale investment	**–**	1,894
Write-off and provision for doubtful debts	**1,685**	4,694
Foreign exchange effects	**367**	461
Changes in working capital:		
Trade and other receivables	**(21,175)**	(23,705)
Trade and other payables	**40,184**	(824)
Cash generated from operations	**75,932**	20,026

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprised bank borrowings, finance leases, cash and short-term deposits. The main purpose of these financial instruments is to raise or maintain financial resources for the Group's operations. The Group has various other financial instruments such as trade receivables and trade payables which arise directly from its business activities.

Exposure to currencies, credit and liquidity risks arise in the normal course of the Group's business. Management of the Group monitors and manages these exposures to ensure appropriate measures are implemented on a timely and effective manner. The key policies on monitoring and controlling these risks are set out below.

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Currency risk

The transactions of several subsidiaries are denominated in foreign currencies, which expose the Group to foreign currency risk. However, most of the Group's assets and liabilities, revenues and payments are denominated in Hong Kong dollars and United States dollars, in which the Group considers there is no significant exposure to foreign exchange fluctuations as long as the Hong Kong-United States dollar exchange rate remains pegged. In addition to United States dollars there are also transactions made in Singapore dollars for which the Group closely monitors the Singapore-United States dollar exchange rate and, whenever appropriate, takes any necessary action to reduce exchange risk.

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management of the Group has a credit limit policy in place and exposures to credit risks are monitored on an ongoing basis. In order to minimise credit risk, management of the Group has established credit limits, credit approvals and other monitoring procedures to ensure appropriate actions are taken to recover overdue debts.

Liquidity risk

Individual operating units within the Group are responsible for their own cash management. To minimise liquidity risks, management of the Group regularly reviews the current and expected liquidity requirements of operating units to ensure they maintain sufficient reserves of cash to meet their liquidity requirements in the short and longer terms.

22. COMMITMENTS

Capital expenditure commitments

	Group	
	2006	2005
	HK$'000	*HK$'000*
Contracted but not provided for (net of deposit paid)	**36**	2,400

Commitments under operating leases

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**8,031**	4,645	**2,659**	2,275
In the second to fifth years inclusive	**10,369**	7,093	**1,997**	2,553
Over five years	**64**	–	**–**	–
	18,464	11,738	**4,656**	4,828

Operating lease payments mainly represent rentals payable for certain office premises and director's quarters. Leases are negotiated for and rentals are fixed for an average of 2 to 6 years.

23. DEFERRED TAX ASSETS

The movements for the year in the Group's net deferred tax position were as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
As at 1 January	**10,881**	2,369
Exchange differences	**20**	(32)
Income statement (charges) / credit	**(35)**	8,544
As at 31 December	**10,866**	10,881
Recognised deferred tax assets		
Depreciation allowances	**234**	234
Tax losses	**10,632**	10,647
Net deferred tax assets	**10,866**	10,881
Unrecognised deferred tax assets		
Tax losses	**135,188**	139,029
Deductible temporary differences	**–**	452
As at 31 December	**135,188**	139,481

The unrecognised tax losses of HK$483,052,000 (*2005: HK$477,969,000*) have no expiry dates under current tax legislation, except for tax losses of HK$306,990,000 (*2005: HK$335,666,000*) which are related to a subsidiary in the United States. These tax losses have a carry-forward period of 20 years from the year they arise and will begin to expire from 2020 onwards.

24. SEGMENTAL INFORMATION

Analyses of the principal geographical areas and business activities of operations of the Group during the year are set out below.

(a) By geographical segments

In presenting information on a geographical basis, revenue, segment assets and capital expenditure are based on the geographical location of customers, or the location of the assets, as appropriate.

Year ended 31 December 2006

	North America	Asia Pacific	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Turnover			
External sales	598,989	103,821	702,810
Results			
Profit from operations	29,925	27,873	57,798
Finance costs			(2,859)
Other operating income and expenses			(10,308)
Profit before taxation			44,631
Taxation charges			(3,999)
Profit for the year			40,632
Other information			
Capital expenditures	5,954	4,258	10,212
Depreciation and amortisation	6,743	2,972	9,715
Significant non-cash expenses (other than depreciation and amortisation)	1,638	47	1,685
Assets			
Segment assets	182,424	85,757	268,181
Liabilities			
Segment liabilities	119,130	16,934	136,064

24. SEGMENTAL INFORMATION *(continued)*

(a) By geographical segments *(continued)*

Year ended 31 December 2005

	North America *HK$'000*	Asia Pacific *HK$'000*	Consolidated *HK$'000*
Turnover			
External sales	308,702	113,888	422,590
Results			
Profit from operations	21,720	21,027	42,747
Finance costs			(34)
Other operating income and expenses			(4,181)
Profit before taxation			38,532
Taxation credit			8,544
Profit for the year			47,076
Other information			
Capital expenditures	4,679	4,366	9,045
Depreciation	2,377	2,379	4,756
Significant non-cash expenses (other than depreciation)	4,660	1,928	6,588
Assets			
Segment assets	85,238	66,145	151,383
Liabilities			
Segment liabilities	45,606	14,705	60,311

24. SEGMENTAL INFORMATION *(continued)*

(b) By business segments

Year ended 31 December 2006

	Telecommunication services *HK$'000*	**Other** *HK$'000*	**Consolidated** *HK$'000*
Turnover			
External sales	696,494	6,316	702,810
Results			
Profit from operations	57,792	6	57,798
Finance costs			(2,859)
Other operating income and expenses			(10,308)
Profit before taxation			44,631
Taxation charges			(3,999)
Profit for the year			40,632
Other information			
Assets			
– Business segments	229,908	383	230,291
– Unallocated assets			37,890
			268,181
Capital expenditures			
– Business segments	7,019	–	7,019
– Unallocated assets			3,193
			10,212

24. SEGMENTAL INFORMATION *(continued)*

(b) By business segments *(continued)*

Year ended 31 December 2005

	Telecommunication services HK$'000	Other HK$'000	Consolidated HK$'000
Turnover			
External sales	414,072	8,518	422,590
Results			
Profit from operations	42,503	244	42,747
Finance costs			(34)
Other operating income and expenses			(4,181)
Profit before taxation			38,532
Taxation credit			8,544
Profit for the year			47,076
Other information			
Assets			
– Business segments	119,819	396	120,215
– Unallocated assets			31,168
			151,383
Capital expenditures			
– Business segments	5,548	–	5,548
– Unallocated assets			3,497
			9,045

25. COMPARATIVE FIGURES

The classification of certain income statement items have been changed as follows:

- Costs of sales staff of HK$19,933,000 that were included in operating and administrative expenses in the 2005 financial statements have been reclassified to selling and distribution expenses to conform with the current year presentation.
- Gain on disposal of property, plant and equipment of HK$27,000 has been included in the calculation of 2005 EBITDA to conform with the current year calculation.

The directors of the Company consider that the revised presentation reflects more appropriately the nature / function of these items in the financial statements.

26. POST BALANCE SHEET EVENTS

On 16 February 2007, the Group entered into a placing and subscription agreement whereby 52 million shares of the Company were placed and subscribed for at the price of HK$0.90 per share, subject to adjustment for commissions, costs and expenses incurred in relation thereto. Details of the placing and subscription agreement were disclosed in the announcement of the Company dated 16 February 2007.

On 16 February 2007, Cyberman Limited (a wholly-owned subsidiary of the Company), Cannizaro Hong Kong Limited (acting as the investment manager of its fund) and ZONE Resources Limited ("ZRL") entered into a subscription and shareholders agreement whereby Cannizaro subscribed or procured subscriptions for 500 shares of ZRL, representing 5% of the issued share capital of ZRL, for a consideration of US$2.5 million. ZRL remains to be a 95% subsidiary of the Company. Details of the subscription and shareholders agreement were disclosed in the announcement of the Company aforesaid.

The transactions contemplated by the said placing and subscription agreement and the subscription and shareholders agreement were completed in February 2007.