

21. SHARE OPTION SCHEME

Scheme adopted on 3rd June, 1996

In accordance with the Company's share option scheme (the "1996 Scheme") adopted pursuant to a resolution passed on 3rd June, 1996, the Board of Directors of the Company may at their discretion grant options to all permanent, full-time employees of the Company and its subsidiaries, to subscribe for shares in the Company. The primary purpose of the 1996 Scheme was to provide incentives to eligible employees.

The total number of shares in respect of which options may be granted under the 1996 Scheme (including options already exercised) was not permitted to exceed 10% of the issued share capital of the Company at any point in time. The maximum number of share options issued to any employee, based on the subscription price of the options, shall not exceed four times the annual basic salary (excluding bonuses and allowances) of that employee.

Options granted must be taken up within 28 days from the date of grant upon payment of HK\$1 per each grant of share options. An option may be exercisable up to 50% on or after the third anniversary of the date of grant, up to 75% on or after the fourth anniversary and fully on or after the fifth anniversary but before the tenth anniversary of the date of offer unless the Board of Directors specifies other periods. The exercise price was determined by the Board of Directors and was based on the average closing price of the shares for the five trading days immediately preceding the date of grant.

The 1996 Scheme was terminated on 25th January, 2002 pursuant to a resolution passed on that date.

Scheme adopted on 25th January, 2002

A new share option scheme (the "2002 Scheme") was adopted pursuant to a resolution passed on 25th January, 2002 for the primary purpose of attracting and retaining the best personnel for the development of the Company's businesses, and providing incentives to employees, Directors, consultants, agents, representatives and advisors, and promoting the long term financial success of the Company. The 2002 Scheme will expire on 24th January, 2012.

Under the 2002 Scheme, the Board of Directors of the Company may at their discretion grant options to the employees, including Directors, of the Company or any company that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Company, to subscribe for shares in the Company. Options granted to a Director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the Independent Non-Executive Directors of the Company (excluding any Independent Non-Executive Director who is also the grantee).

21. SHARE OPTION SCHEME (CONTINUED)

Scheme adopted on 25th January, 2002 (continued)

No options have been granted during the year. At 31st December, 2002, the number of shares in respect of which options had been granted under the 2002 Scheme was 7,149,500 representing 1.83% of the shares of the Company in issue at that date.

The total number of shares in respect of which options may be granted under the 2002 Scheme and any other schemes is not permitted to exceed 30% of the issued share capital of the Company from time to time. In addition, the total number of shares in respect of which options may be granted under the 2002 Scheme and any other schemes must not, in aggregate, exceed 10% of the issued share capital of the Company at the adoption date of the 2002 Scheme, being 39,026,550 shares, without prior approval from the Company's shareholders.

The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to a substantial shareholder, or an Independent Non-Executive Director of the Company, or any of their respective associates under the 2002 Scheme and any other schemes in any one year in excess of 0.1% of the Company's issued share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days from the date of grant upon payment of HK\$1 per each grant of share options. The exercise period of the share options granted under the 2002 Scheme shall be determined by the Board of Directors when such options are granted, provided that such period shall not end later than 10 years from the date of grant. The exercise price is determined by the Board of Directors and will not be less than the higher of the closing price of the Company's shares on the date of grant, or the average closing price of the shares for the five trading days immediately preceding the date of grant, or the nominal value of a share of the Company.

No options were granted during the year. Total consideration received in 2002 from employees for taking up the options granted amounted to HK\$105.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are lapsed or are cancelled prior to their exercise dates are deleted from the register of outstanding options.

21. SHARE OPTION SCHEME (CONTINUED)

The following table discloses details of the Company's share options held by employees (including Directors) and movements in such holdings during the year:

Share option scheme category	Option type	Outstanding at 1st January, 2004	Granted during 2004	Exercised during 2004	Cancelled during 2004	Lapsed during 2004	Outstanding at 31st December, 2004
2002	A	1,691,500	—	—	—	—	1,691,500
2002	B	1,768,000	—	—	—	(15,000)	1,753,000
2002	C	3,481,500	—	—	—	—	3,481,500
		<u>6,941,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(15,000)</u>	<u>6,926,000</u>
Share option scheme category	Option type	Outstanding at 1st January, 2003	Granted during 2003	Exercised during 2003	Cancelled during 2003	Lapsed during 2003	Outstanding at 31st December, 2003
2002	A	1,718,500	—	—	—	(27,000)	1,691,500
2002	B	1,838,000	—	—	—	(70,000)	1,768,000
2002	C	3,593,000	—	—	—	(111,500)	3,481,500
		<u>7,149,500</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(208,500)</u>	<u>6,941,000</u>

Details of the share options held by the Directors included in the above table as follows:

Share option scheme category	Option type	Outstanding at 1st January, 2004	Granted during 2004	Exercised during 2004	Cancelled during 2004	Lapsed during 2004	Outstanding at 31st December, 2004
2002	A	651,000	—	—	—	—	651,000
2002	B	264,000	—	—	—	—	264,000
2002	C	1,360,000	—	—	—	—	1,360,000
		<u>2,275,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,275,000</u>
Share option scheme category	Option type	Outstanding at 1st January, 2003	Granted during 2003	Exercised during 2003	Cancelled during 2003	Lapsed during 2003	Outstanding at 31st December, 2003
2002	A	651,000	—	—	—	—	651,000
2002	B	264,000	—	—	—	—	264,000
2002	C	1,360,000	—	—	—	—	1,360,000
		<u>2,275,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,275,000</u>

21. SHARE OPTION SCHEME (CONTINUED)

Details of specific categories of options are as follows:

Option type	Date of grant	Vesting period	Exercise period	Exercise price HK\$
2002 Scheme				
A (Note a)	4th February, 2002	—	4th February, 2002 – 25th November, 2006	17.48
B (Note a)	4th February, 2002	4th February, 2002 – 30th September, 2002	1st October, 2002 – 30th September, 2009	17.48
C (Note b)	4th February, 2002	4th February, 2002 – 3rd February, 2004	4th February, 2004 – 3rd February, 2012	14.35
1996 Scheme				
D (Note a)	26th November, 1996	26th November, 1996 – 25th November, 1999	26th November, 1999 – 25th November, 2006	17.48
E (Note a)	20th September, 1999	20th September, 1999 – 30th September, 2002	1st October, 2002 – 30th September, 2009	17.48

Notes:

- a. Pursuant to a resolution passed in the special general meeting of the Company held on 25th January, 2002, the 1996 Scheme was terminated and all existing options under that scheme were cancelled. New options were issued on 4th February, 2002 under the 2002 Scheme with the same exercise price and exercise periods to replace the options granted under the 1996 Scheme.

Option type A

100% between 4th February, 2002 and 25th November, 2006

The exercise periods of the following option types are divided into 3 tranches, as detailed below:

Option type D

1. Up to 50% between 26th November, 1999 and 25th November, 2006
2. Up to 75% between 26th November, 2000 and 25th November, 2006
3. Up to 100% between 26th November, 2001 and 25th November, 2006

Option types B and E

1. Up to 50% between 1st October, 2002 and 30th September, 2009
2. Up to 75% between 1st October, 2003 and 30th September, 2009
3. Up to 100% between 1st October, 2004 and 30th September, 2009

- b. Additional share options were issued on 4th February, 2002 under the 2002 Scheme.

The exercise period is divided into 3 tranches, as detailed below:

Option type C

1. Up to 25% between 4th February, 2004 and 3rd February, 2012
2. Up to 50% between 4th February, 2005 and 3rd February, 2012
3. Up to 100% between 4th February, 2006 and 3rd February, 2012

22. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
The Company				
At 1st January, 2003	4,614	390,053	2,836	397,503
Final dividend for 2002 paid	—	—	(74,151)	(74,151)
Special dividend for 2002 paid	—	—	(97,566)	(97,566)
Interim dividend for 2003 paid	—	—	(31,221)	(31,221)
Profit for the year	—	—	202,578	202,578
	—	—	—	—
At 31st December, 2003 and 1st January, 2004	4,614	390,053	2,476	397,143
Final dividend for 2003 paid	—	—	(93,664)	(93,664)
Interim dividend for 2004 paid	—	—	(31,221)	(31,221)
Profit for the year	—	—	125,358	125,358
	—	—	—	—
At 31st December, 2004	4,614	390,053	2,949	397,616

The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries at the date at which they were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition at the time of the Group reorganisation prior to the listing of the Company's shares in 1996.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital.

In the opinion of the Directors, as at 31st December, 2004, the Company's reserves available for distribution consisted of the contributed surplus of HK\$390,053,000 (2003: HK\$390,053,000) and retained profits of HK\$2,949,000 (2003: HK\$2,476,000).

23. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

Deferred income tax assets are recognised of tax loss carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has no unrecognised tax losses to carry forward against future taxable income (2003: HK\$436,000).

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

The Group

	Accelerated tax depreciation HK\$'000	Others HK\$'000	Tax loss HK\$'000	Total HK\$'000
Balance at 1st January, 2003	185,949	—	—	185,949
Charge (credit) to income statement (note 8)	10,527	(311)	(76)	10,140
Effect of change in tax rate charge to the income statement (note 8)	17,433	—	—	17,433
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Balance at 31st December, 2003 and at 1st January, 2004	213,909	(311)	(76)	213,522
(Credit) charge to income statement (note 8)	(6,884)	(1,456)	76	(8,264)
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Balance at 31st December, 2004	207,025	(1,767)	—	205,258
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23. DEFERRED TAXATION (CONTINUED)**The Company**

	Tax loss HK\$'000
Balance at 1st January, 2003	—
Credit to income statement	(76)
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Balance at 31st December, 2003 and at 1st January, 2004	(76)
Charge to income statement	76
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Balance at 31st December, 2004	—
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Deferred 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 consolidated balance sheet.

	2004 HK\$'000	2003 HK\$'000
The Group		
Deferred tax liabilities	205,258	213,598
Deferred tax assets	—	(76)
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	205,258	213,522
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The Company		
Deferred tax assets	—	(76)
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24. MAJOR NON-CASH TRANSACTIONS

During 2004, the Group decreased its equity interest in Skywave TV Company Limited ("Skywave") from 100% to 80% with two independent third parties made a contribution in kind of HK\$3 million each in return for a 10% stake in Skywave. There was no major non-cash transaction during 2003.