Notes to the Financial Statements

For the year ended 31 December 2005

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, 11 Pedder Street, Central, Hong Kong. The principal activity of the Company is investment holding. Details of the principal subsidiaries of the Company are disclosed in note 12 to the financial statements.

1. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("FRS") and Hong Kong Accounting Standards ("HKAS") (collectively referred to as "HKFRS") 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 ("Listing Rules"). This year, the Group adopted the new/revised HKFRS pertinent to its operations. Major changes in accounting policies following the adoption of these HKFRS are summarised in note 7 to the financial statements. 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, except for available-for-sale investments, which have been measured at fair value.

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/or 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2005

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. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs 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 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%

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

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:

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated to this category or not classified in any of the other categories. They are measured at fair values with changes in carrying values being recognised as a separate component of equity until the investments are sold, collected or otherwise disposed of, or until the investments are determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less any accumulated impairment losses.

Trade receivables and payables

Trade receivables and payables are recognised at cost which approximates to their fair values, less any provisions for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset carrying amount and the present value of the estimated future cash flow, discounted at the effective interest rate. The amount of provision is recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and there is no intention of trading therein. They are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period to maturity.

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.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

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

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets 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, except where the relevant asset is carried at valuation, in which case the impairment loss is treated as a revaluation decrease.

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, except where the relevant asset is carried at valuation, in which case the reversal of impairment loss is treated as a revaluation increase.

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 interest rate applicable.

Leasing

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

Assets held under finance leases are recognised as assets at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair values of the assets acquired, are charged to the income statement over the terms of the relevant leases 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.

Foreign currencies

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 overseas subsidiaries 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 exchange differences arising from the translation of overseas subsidiaries are recognised as a separate component of equity.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted 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 100% of employer mandatory contributions upon retirement at the age of 65 years, death or total incapacity. Employees 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 legal 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.

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 capital reserve. 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 capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the shares. The equity amount is recognised as a capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained earnings or accumulated losses).

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

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

Estimates and judgements are currently evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

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 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 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 charged to the income statement.

Future changes in HKFRS

At the date of authorisation of these financial statements, the HKICPA has issued a number of new/revised standards and interpretations that are not yet effective. The directors anticipate that adoption of these new HKFRS in future periods will have no material impact on the results of the Group.

Notes to the Financial Statements (continued)

For the year ended 31 December 2005

2. TURNOVER AND REVENUE

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Turnover		
Telecommunication services income	**414,072**	402,155
Other revenue	**8,518**	499
	422,590	402,654
Interest income	**589**	339
Revenue	**423,179**	402,993

3. PROFIT/(LOSS) BEFORE TAXATION

This is stated after charging/(crediting):

	Group	
	2005	2004
	HK$'000	*HK$'000*
(a) Finance costs		
Finance charges on obligations under finance leases	**34**	38
(b) Other items		
Employee salary and other benefits	**62,995**	70,322
Retirement benefit schemes contributions	**1,860**	2,224
	64,855	72,546
Auditors' remuneration	**928**	1,278
Write-off and provision for doubtful debts	**4,694**	6,738
Cost of services provided	**267,649**	254,821
Depreciation of property, plant and equipment	**4,756**	48,925
(Gain)/Loss on disposal of an available-for-sale investment included in other income/other operating expenses	**(5,200)**	232
Impairment loss on an available-for-sale investment	**1,894**	–
(Gain)/Loss on disposal of property, plant and equipment, *(2004: including HK$5,650,000 disclosed in note 5)*	**(27)**	5,687
Operating lease charges on premises	**4,204**	2,499
Exchange losses/(gains), net	**597**	(1,810)

4. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

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

	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**

	2004			
	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	–	1,686	24	1,710
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.	25	–	–	25
	225	4,686	72	4,983

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

Individuals with highest emoluments

Of the six *(2004: six)* individuals with the highest emoluments, three *(2004: three)* are directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other three *(2004: three)* individuals are as follows:

	2005	2004
	HK$'000	*HK$'000*
Salaries, gratuities and other emoluments	**5,164**	5,118
Retirement benefit scheme contributions	**79**	65
	5,243	5,183

The emoluments of the three *(2004: 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 *(2004: three)* highest paid individuals, are regarded as the key management personnel of the Group for disclosure purposes.

5. RESTRUCTURING COSTS

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Impairment losses on property, plant and equipment *(note 11)*	–	90,153
Loss on disposal of property, plant and equipment *(note 11)*	–	5,650
Provision for obligations under an operating lease	–	4,437
Other	–	304
	–	100,544

6. TAXATION 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.

The taxation credit recognised during the year represents deferred tax assets created as a result of the origination or reversal of temporary differences as analysed below.

	Group	
	2005	2004
	HK$'000	*HK$'000*
Types of temporary differences:		
Depreciation allowances	**69**	(770)
Tax losses	**(8,613)**	(599)
	(8,544)	(1,369)

Further details of the Group's deferred taxation status are set out in note 24.

Reconciliation of effective tax rate

	Group	
	2005	2004
	%	*%*
Applicable tax rate	**18**	(18)
Non-deductible expenses	**16**	7
Tax exempt revenue	**(17)**	–
Unrecognised tax losses arising in current year	**3**	6
Utilisation of previously unrecognised tax losses	**(6)**	(1)
Recognition of previously unrecognised tax losses	**(11)**	–
Recognition of previously unrecognised deferred tax assets	**(25)**	7
Effective tax rate for the year	**(22)**	1

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2005

7. CHANGES IN ACCOUNTING POLICIES

In 2005, the Group adopted new/revised HKFRS issued by HKICPA which are generally effective for accounting periods beginning on or after 1 January 2005. The comparatives for the prior year have been amended, as required, in accordance with the relevant requirements. The changes having major effects on the accounting policies are summarised below.

HKAS 24 Related party disclosures

HKAS 24 has affected the identification of related parties and some other related-party disclosures. The new definition of related parties is set out in note 1 to the financial statements.

HKAS 32 Financial instruments: Disclosure and presentation and HKAS 39 Financial instruments: Recognition and measurement

Prior to 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment prescribed in Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities were classified as "investment securities" or "other investments" as appropriate. Investment securities were carried at cost less impairment losses, if any, while other investments were measured at fair values, with realised/unrealised gains or losses included in the income statement. From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. In so doing, the Group has re-classified its "investment securities" as "available-for-sale investments" and details of the relevant accounting policy are set out in note 1 to the financial statements. The change in accounting policy has no significant effect on the previously reported results and financial position of the Group. HKAS 32 has been retrospectively applied and comparative figures have been restated accordingly.

FRS 2 Share-based payments

FRS 2 requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to given numbers of shares or rights over shares ("cash-settled transactions"). The principal impact of FRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company, determined at the date of grant of the share options over the relevant vesting periods, to the income statement. Prior to the application of FRS 2, the Group did not recognise the financial effects of share options until they were exercised. From 1 January 2005 onwards, the Group has applied FRS 2 to share options granted on or after 7 November 2002 and not yet vested on 1 January 2005. In relation to share options granted before 7 November 2002, the Group has not applied FRS 2 in accordance with the relevant transitional provisions. As at 1 January and 31 December 2005, all share options of the Company had been granted before 7 November 2002 and, therefore, are not subject to the requirements of FRS 2.

8. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net profit/(loss) attributable to equity holders of the Company includes a profit of HK$17,667,000 *(2004: loss of HK$105,864,000)* which has been dealt with in the financial statements of the Company.

9. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2005 is based on the consolidated profit attributable to equity holders of the Company of HK$47,076,000 *(2004: loss of HK$131,607,000)* and on the 470,894,200 *(2004: 470,894,200)* shares in issue during the year.

The diluted earnings/(loss) per share for the years ended 31 December 2005 and 2004 have not been presented as the exercise prices of the share options were higher than the average market price.

10. EBITDA

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

11. PROPERTY, PLANT AND EQUIPMENT

	Group			
	Leasehold improvements	**Machinery and equipment**	**Office equipment, furniture and fittings**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Reconciliation of carrying amount				
As at 1 January 2004	232	144,957	4,509	149,698
Exchange adjustments	–	4	52	56
Additions	13	1,309	3,482	4,804
Impairment losses	(35)	(89,798)	(320)	(90,153)
Disposals	–	(9,027)	(843)	(9,870)
Write-back of accumulated depreciation on disposals	–	1,506	800	2,306
Depreciation	(210)	(45,940)	(2,775)	(48,925)
As at 31 December 2004	–	3,011	4,905	7,916
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**
Representing:				
Cost	752	206,753	21,606	229,111
Accumulated depreciation and impairment losses	(752)	(203,742)	(16,701)	(221,195)
As at 1 January 2005	–	3,011	4,905	7,916
Cost	2,091	44,730	21,301	68,122
Accumulated depreciation and impairment losses	(75)	(40,043)	(15,860)	(55,978)
As at 31 December 2005	**2,016**	**4,687**	**5,441**	**12,144**

The carrying amount of the Group's property, plant and equipment as at 31 December 2005 includes an amount of HK$794,000 *(2004: HK$993,000)* in respect of assets held under finance leases.

Notes to the Financial Statements (continued)

For the year ended 31 December 2005

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

	Company		
	Leasehold improvements	Office equipment, furniture and fittings	Total
	HK$'000	*HK$'000*	*HK$'000*
Reconciliation of carrying amount			
As at 1 January 2004	–	214	214
Additions	–	121	121
Disposals	–	(355)	(355)
Write-back of accumulated depreciation on disposals	–	354	354
Depreciation	–	(181)	(181)
As at 31 December 2004	–	153	153
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**
Representing:			
Cost	–	1,763	1,763
Accumulated depreciation and impairment losses	–	(1,610)	(1,610)
As at 1 January 2005	–	153	153
Cost	1,631	2,347	3,978
Accumulated depreciation and impairment losses	–	(423)	(423)
As at 31 December 2005	**1,631**	**1,924**	**3,555**

12. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**–**	–
Due from subsidiaries	**700,720**	713,510
Less: Provisions	**(635,347)**	(657,288)
	65,373	56,222

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 *(2004: HK$57,948,000)* which bears interest at 5.5% per annum, is unsecured and repayable on 23 April 2007. The carrying values of the amounts due approximate their fair values.

12. 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*	
China Portal Limited	British Virgin Islands	US$1	–	100%	Provision of consultancy services
Cyber Insurance Brokers Limited	Hong Kong	HK$5,000,000	–	70.3%	Insurance brokerage
e-Kong Pillars Limited	British Virgin Islands	US$1	–	100%	Investment holding
e-Kong Pillars Holdings Limited	British Virgin Islands	US$1	100%	–	Investment holding
speedinsure Global Limited	British Virgin Islands	US$10,102	–	70.3%	Investment holding
speedinsure.com Limited	Hong Kong	HK$10,000	–	70.3%	Provision of sales and fulfillment solutions
ZONE Channel Services Limited	Hong Kong	HK$2	–	100%	Provision of marketing and promotion services
ZONE Global Limited	British Virgin Islands	US$1	–	100%	Investment holding
ZONE Limited	Hong Kong	HK$2	–	100%	Provision of telecommunication services
ZONE Telecom, Inc.	United States of America	US$10	–	100%	Provision of telecommunication services
ZONE Telecom Pte Ltd	Singapore	S$100,000	–	100%	Provision of telecommunication services
ZONE USA, Inc.	United States of America	US$10	–	100%	Investment holding

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2005

13. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Equity investments, unlisted		
– at cost less accumulated impairment losses	**–**	1,894

During the year, the Group made full provision for an impairment loss of HK$1,894,000 on an available-for-sale investment and also disposed of a separate available-for-sale investment, which had been fully provided for in previous years, at a consideration of HK$5,200,000.

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**54,364**	39,524	**–**	–
Other receivables				
Deposits, prepayments and other debtors	**12,776**	6,045	**2,079**	1,345
	67,140	45,569	**2,079**	1,345

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	
	2005	2004
	HK$'000	*HK$'000*
Current	**46,109**	33,069
1 to 3 months	**8,020**	6,103
More than 3 months but less than 12 months	**235**	352
	54,364	39,524

The Group's credit policy is set out in note 22.

15. PLEDGED DEPOSITS

At the balance sheet date, the Group and the Company had pledged deposits amounting to HK$2,476,000 *(2004: HK$2,817,000)* and HK$1,369,000 *(2004: HK$1,700,000)*, respectively, to banks for guarantees made by the banks to certain telecommunication carriers for due payments by the Group.

16. TRADE AND OTHER PAYABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**25,930**	26,955	**–**	–
Other payables				
Accrued charges and other creditors	**33,572**	33,371	**1,885**	807
Due to subsidiaries	**–**	–	**784**	619
	59,502	60,326	**2,669**	1,426

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

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Current	**16,756**	19,900
1 to 3 months	**9,011**	3,582
More than 3 months but less than 12 months	**163**	3,473
	25,930	26,955

17. OBLIGATIONS UNDER FINANCE LEASES

The obligations under finance leases are repayable as follows:

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Finance leases due:				
Within one year	**218**	218	**191**	184
After one year but within two years	**218**	218	**198**	184
After two years but within five years	**436**	653	**420**	625
	872	1,089	**809**	993
Future finance charges	**(63)**	(96)	**–**	–
Present value of lease obligations	**809**	993	**809**	993

Notes to the Financial Statements (continued)

For the year ended 31 December 2005

17. OBLIGATIONS UNDER FINANCE LEASES *(continued)*

	Group	
	2005	2004
	HK$'000	*HK$'000*
Reported as:		
Current liabilities	**191**	184
Non-current liabilities	**618**	809
	809	993

The finance leases outstanding 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.

18. ISSUED CAPITAL

	2005		2004	
	Number of shares	**Amount**	Number of shares	Amount
		HK$'000		*HK$'000*
Authorised				
Preference shares				
As at 1 January at HK$Nil *(2004: HK$1)* each	–	–	288,929,402	288,929
Cancellation of preference shares	–	–	(288,929,402)	(288,929)
As at 31 December, at HK$Nil each	–	–	–	–
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
		120,000		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

19. 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 but not yet exercised thereunder remain effective and are bound by the scheme terms.

On 28 June 2002, the Company adopted a new share option scheme (the "New Share Option Scheme") to comply with the requirements of Chapter 17 of the Listing Rules. Under the New Share Option Scheme, the directors of the Company may at 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.

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 shareholder value.

(ii) Maximum number of shares

The total number of shares in respect of which share options may be granted (together with share options exercised and then outstanding) under the scheme and to be granted under any other share option schemes of the Company 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 24 March 2006, 13,674,261 shares of the Company, representing about 2.9% 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.

19. SHARE OPTIONS *(continued)*

Summary of principal terms *(continued)*

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

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

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

(iv) Basis of determining the subscription price

New Share Option Scheme

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

Subsidiary Scheme Rules and Procedures

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

(v) Remaining life of the scheme

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

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:

19. SHARE OPTIONS *(continued)*

Date of grant	Exercisable period	Exercise price HK$	Number of share options: As at 1 January 2004	Lapsed during 2004	As at 31 December 2004	Lapsed during 2005	As at 31 December 2005
25.10.1999	25.10.2000 - 24.10.2009	1.40	1,065,000	(1,050,000)	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	–	370,000	(335,000)	35,000
03.01.2000	03.01.2001 - 24.10.2009	2.30	300,000	(300,000)	–	–	–
24.01.2000	21.02.2000 - 24.10.2009	2.30	450,000	(450,000)	–	–	–
25.01.2000	01.03.2000 - 24.10.2009	2.30	150,000	(150,000)	–	–	–
03.03.2000	03.04.2000 - 24.10.2009	7.60	1,140,000	(1,140,000)	–	–	–
03.03.2000	03.03.2001 - 24.10.2009	7.60	15,000	(15,000)	–	–	–
28.04.2000	28.04.2001 - 24.10.2009	3.30	476,500	(329,000)	147,500	(107,500)	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	30,000	(10,000)	20,000	–	20,000
Total			4,034,000	(3,444,000)	590,000	(442,500)	147,500

The options outstanding as at 31 December 2005 had an exercise price of between HK$1.20 and HK$3.30 *(2004: between HK$1.20 and HK$3.30)* and a weighted average remaining contractual life of 3.83 years *(2004: 4.83 years)*.

20. RESERVES

Group	**Share premium** *HK$'000*	**Exchange reserve** *HK$'000*	**Capital redemption reserve** *HK$'000*	**Contributed surplus** *HK$'000*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
As at 1 January 2004	23,461	–	6	607,462	(459,024)	171,905
Exchange differences on translation of foreign subsidiaries	–	(1,384)	–	–	–	(1,384)
Loss for the year	–	–	–	–	(131,607)	(131,607)
As at 31 December 2004	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**
Company						
As at 1 January 2004	23,461	–	6	607,462	(456,131)	174,798
Loss for the year	–	–	–	–	(105,864)	(105,864)
As at 31 December 2004	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**

Notes to the Financial Statements (continued)

For the year ended 31 December 2005

20. RESERVES *(continued)*

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

(i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

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

	2005	2004
	HK$'000	*HK$'000*
Contributed surplus	**607,462**	607,462
Accumulated losses	**(544,328)**	(561,995)
	63,134	45,467

21. CASH GENERATED FROM OPERATIONS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Profit/(Loss) before taxation	**38,532**	(132,976)
Interest income	**(589)**	(339)
Interest on obligations under finance leases	**34**	38
Depreciation	**4,756**	48,925
(Gain)/Loss on disposal of property, plant and equipment	**(27)**	5,687
Impairment losses on property, plant and equipment	**–**	90,153
(Gain)/Loss on disposal of an available-for-sale investment	**(5,200)**	232
Impairment loss on an available-for-sale investment	**1,894**	–
Write-off and provision for doubtful debts	**4,694**	6,738
Foreign exchange effects	**461**	(1,440)
Changes in working capital:		
Trade and other receivables	**(23,705)**	(4,818)
Trade and other payables	**(824)**	1,725
Cash generated from operations	**20,026**	13,925

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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. Apart from 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.

23. COMMITMENTS

Capital expenditure commitments

	2005	2004
	HK$'000	*HK$'000*
Contracted but not provided for (net of deposit paid)	**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**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**4,645**	4,861	**2,275**	1,820
In the second to fifth years inclusive	**7,093**	7,370	**2,553**	816
Over five years	**–**	355	**–**	–
	11,738	12,586	**4,828**	2,636

Operating lease payments mainly represent rentals payable for certain of its office premises. Leases are negotiated for and rentals are fixed for an average of 3 to 5 years.

Notes to the Financial Statements (continued)

For the year ended 31 December 2005

24. DEFERRED TAX ASSETS

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
As at 1 January	**2,369**	1,000
Exchange differences	**(32)**	–
Income statement credit	**8,544**	1,369
As at 31 December	**10,881**	2,369
Recognised deferred tax assets		
Depreciation allowances	**234**	303
Tax losses	**10,647**	2,066
Net deferred tax assets	**10,881**	2,369
Unrecognised deferred tax assets arising from		
Tax losses	**139,029**	155,649
Tax credits	**–**	1,957
Deductible temporary differences	**452**	741
As at 31 December	**139,481**	158,347

The tax losses, tax credits and deductible temporary differences have no expiry dates under current tax legislation, except for tax losses of HK$335,666,000 *(2004: HK$370,568,000)* which are related to a subsidiary in the United States. These tax losses have a carryforward period of 20 years from the year they arise and will begin to expire from 2020 onwards.

25. SEGMENTAL INFORMATION

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

(a) By business segments

Year ended 31 December 2005

	Tele-communication 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			
Capital expenditures			
– Business segments	5,548	–	5,548
– Unallocated items			3,497
Depreciation			
– Business segments	4,663	1	4,664
– Unallocated items			92
Significant non-cash expenses (other than depreciation)			
– Business segments	4,694	–	4,694
– Unallocated items			1,894
Assets			
Segment assets	119,819	396	120,215
Unallocated assets			31,168
			151,383
Liabilities			
Segment liabilities	58,043	378	58,421
Unallocated liabilities			1,890
			60,311

Notes to the Financial Statements (continued)

For the year ended 31 December 2005

25. SEGMENTAL INFORMATION *(continued)*

(a) By business segments *(continued)*

Year ended 31 December 2004

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

25. SEGMENTAL INFORMATION *(continued)*

(b) 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.

	North America *HK$'000*	Asia Pacific *HK$'000*	Consolidated *HK$'000*
Year ended 31 December 2005			
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			
Segment assets	85,238	66,145	151,383
Capital expenditures	4,679	4,366	9,045
Year ended 31 December 2004			
Turnover			
External sales	273,678	128,976	402,654
Results			
Profit/(Loss) from operations	(25,782)	6,472	(19,310)
Restructuring costs	(100,544)	–	(100,544)
	(126,326)	6,472	(119,854)
Finance costs			(38)
Other operating income and expenses			(13,084)
Loss before taxation			(132,976)
Taxation credit			1,369
Loss for the year			(131,607)
Other information			
Segment assets	52,547	52,395	104,942
Capital expenditures	2,174	2,630	4,804

26. POST BALANCE SHEET EVENTS

On 16 January 2006, a subsidiary of the Company entered into an asset purchase agreement with a third party to acquire certain telecommunication services assets which consist mainly of customer contracts in connection with the provision of long distance telecommunication services in the United States. Total consideration for the acquisition is approximately HK$50,700,000, which will primarily be financed through a bank loan of HK$46,500,000 made available to the subsidiary. The bank loan is proposed to be repayable over 5 years and secured through, among others, a pledge of the trade receivables of the subsidiary.

In respect of the above transaction, a circular document was sent to all shareholders on 16 February 2006 and the acquisition was approved by the Company's shareholders on 3 March 2006. Completion is expected to take place following the fulfillment of all conditions precedent.

27. COMPARATIVE FIGURES

As further explained in note 7 to the financial statements, due to the adoption of HKFRS during the year, the accounting treatment and the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated.