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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt about any aspect of this circular or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in e-Kong Group Limited ("the Company"), you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is addressed to the shareholders and the holders of share options (for information purpose only) of the Company in connection with a special general meeting of the Company to be held on Thursday, 21 November 2002. This circular is not and does not constitute an offer of, nor is it intended to invite offers for, shares in or other securities of the Company.

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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**e-KONG**  
**e-Kong Group Limited**  
*(Incorporated in Bermuda with limited liability)*

**PROPOSED CAPITAL REORGANISATION  
PROPOSED RIGHTS ISSUE  
WHITEWASH WAIVER  
PROPOSED BYE-LAW AMENDMENTS  
AND  
GENERAL MANDATES TO ISSUE AND TO REPURCHASE NEW SHARES**

**Financial Adviser to the Company**



**華富嘉洛證券融資有限公司**  
**Quam Capital Limited**  
A Subsidiary of Quam Limited

**Independent Financial Adviser to the Independent Director**

**ALTUS CAPITAL LIMITED**

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A letter of advice from Altus Capital Limited to the Independent Director (as defined herein) is set out on pages 31 to 44 of this circular. The letter of the Independent Director (as defined herein) is set out on pages 29 to 30 of this circular.

A notice convening the Company's special general meeting to be held at 10:00 a.m. on 21 November 2002 at Room 3805, Tower II, Lippo Centre, 89 Queensway, Hong Kong is set out on pages 102 to 107 of this circular. If you are not able to attend and/or vote at the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch share registrars in Hong Kong, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

It should be noted that the Underwriting Agreement (as defined herein) in respect of the Rights Issue (as defined herein) contains provisions entitling the Underwriter (as defined herein), by notice in writing, to terminate the obligations of the Underwriter thereunder on the occurrence of certain events. These events are set out in the section headed "Termination of the Underwriting Agreement" on page 7 of this circular. If the Underwriter exercises such right, the obligations of the Underwriter under the Underwriting Agreement shall cease and the Rights Issue will not proceed.

New Shares (as defined herein) will be dealt with on an ex-rights basis from 25 November 2002. Dealings in the Rights Shares in the nil-paid form will take place from 2 December 2002 to 9 December 2002 (both days inclusive). If prior to 4:30 p.m. on 17 December 2002, the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated by Interventure Group Limited, the Rights Issue will not proceed.

Any person contemplating buying or selling New Shares from 25 November 2002 to 17 December 2002 which all such conditions are fulfilled (which is expected to be 17 December 2002), and contemplating buying or selling nil-paid Rights Shares between 2 December 2002 and 9 December 2002 (both days inclusive), bears the risk that the Rights Issue may not become unconditional and may not proceed.

Investors may wish to obtain professional advice regarding dealings in New Shares or nil-paid Rights Shares during these periods.

28 October 2002

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“Altus”	Altus Capital Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), which has been appointed as the independent financial adviser to the Independent Director in relation to the Rights Issue and the Whitewash Waiver
“Announcement”	the Company’s announcement dated 7 October 2002 relating to, <i>inter alia</i> , the Capital Reorganisation, the Rights Issue, the Whitewash Waiver and general mandates to issue and to repurchase New Shares
“associate(s)”	having the same meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Capital Reduction”	the cancellation of HK\$0.0195 of the paid-up capital for each issued Existing Share
“Capital Reorganisation”	the reorganisation of the capital of the Company consisting of the Capital Reduction, the Share Consolidation, the Share Premium Cancellation and the Share Subdivision
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Act”	the Companies Act 1981 of Bermuda
“Company”	e-Kong Group Limited, a company incorporated in Bermuda with limited liability and the ordinary shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Excluded Rights Shares”	45,525,782 Rights Shares in aggregate that Mr. Siemens, Mr. Hicks and Mr. Saran are entitled to subscribe for pursuant to the terms of the Rights Issue in their capacity as Qualifying Shareholders

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## DEFINITIONS

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“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Existing Share(s)”	ordinary share(s) of HK\$0.02 each in the existing share capital of the Company
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HK\$”	Hong Kong dollar(s)
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Director”	Mr. Matthew Brian Rosenberg, the Director who has been appointed to advise the Independent Shareholders in relation to the Rights Issue and the Whitewash Waiver
“Independent Shareholders”	Shareholders other than Interventure, its associates and parties acting in concert with it (including Mr. Siemens, Mr. Hicks and Mr. Saran)
“Interventure” or “Underwriter”	Interventure Group Limited is an investment holding company incorporated in the British Virgin Islands which is beneficially owned as to $\frac{1}{3}$ by Mr. Siemens, $\frac{1}{3}$ by Mr. Hicks and $\frac{1}{3}$ by Mr. Saran
“Latest Acceptance Date”	being 4:00 p.m. on 13 December 2002, the latest date upon which provisional allotments of Rights Shares in nil-paid form may be validly accepted
“Latest Practicable Date”	25 October 2002, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

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## DEFINITIONS

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“Mr. Hicks”	Mr. William Bruce Hicks, a non-executive Director who together with a company controlled by him is the beneficial owner of 210,036,642 Existing Shares, representing about 4.46% of the issued share capital of the Company
“Mr. Saran”	Mr. Kuldeep Saran, Deputy Chairman of the Company who together with a company controlled by him is the beneficial owner of 186,949,500 Existing Shares, representing about 3.97% of the issued share capital of the Company
“Mr. Siemens”	Mr. Richard John Siemens, the Chairman of the Company who together with companies controlled by him is the beneficial owner of 513,529,500 Existing Shares, representing about 10.91% of the issued share capital of the Company
“New Share(s)”	new ordinary share(s) of HK\$0.01 each in the share capital of the Company immediately after the Capital Reorganisation
“Overseas Shareholder(s)”	the Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose registered address(es) on that date is/are outside Hong Kong
“Prospectus”	the prospectus to be issued by the Company in relation to the Rights Issue
“Qualifying Shareholder(s)”	the Shareholder(s), other than the Overseas Shareholder(s), whose name(s) appear(s) on the register of members of the Company on the Record Date
“Record Date”	27 November 2002
“Relevant Period”	the period commencing on 8 April 2002 (being the date falling six months immediately prior to the date of the Announcement) and ending on the Latest Practicable Date
“Rights Issue”	the rights issue of one Rights Share for every New Share held by a Shareholder on the Record Date

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## DEFINITIONS

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“Rights Issue Documents”	the Prospectus, the provisional allotment letter and the form of application for excess Rights Shares
“Rights Share(s)”	New Share(s) to be issued by the Company in relation to the Rights Issue
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“SFC”	Securities and Futures Commission
“SGM”	the special general meeting of the Company to be convened for the purpose of considering, <i>inter alia</i> , the Capital Reorganisation, the Rights Issue, the Whitewash Waiver and general mandates to issue and to repurchase New Shares
“Share Consolidation”	the consolidation of every 20 issued shares of HK\$0.0005 each in the capital of the Company arising from the Capital Reduction into one New Share
“Share Options”	share options granted pursuant to the Company’s share option scheme adopted on 25 October 1999 (as amended)
“Share Premium Cancellation”	the cancellation of the amount of HK\$1,196,238,291 standing to the credit of the share premium account of the Company as at the date of the Announcement
“Share Subdivision”	the subdivision of every authorised but unissued Existing Share into two New Shares
“Shareholder(s)”	holder(s) for the time being of the ordinary share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	subscription price of HK\$0.12 per Rights Share
“Takeovers Code”	The Code on Takeovers and Mergers
“Underwriting Agreement”	the underwriting agreement dated 4 October 2002 and entered into between the Company and Interventure in relation to the Rights Issue

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## DEFINITIONS

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“Whitewash Waiver”

a waiver from the Executive pursuant to Note 1 to Notes on Dispensations from Rule 26 of the Takeovers Code in respect of the obligations of Interventure and parties acting in concert with it to make a mandatory general offer for all the securities of the Company not already owned by Interventure and parties acting in concert with it which would otherwise arise as a result of Interventure subscribing for the Rights Shares under the terms of the Underwriting Agreement and parties acting in concert with Interventure taking up their Rights Shares entitlement together with any excess Rights Shares that all or any of them may apply for and are accepted by the Company

“%”

per cent.

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## SUMMARY OF THE RIGHTS ISSUE

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*The following information is derived from, and should be read in conjunction with, the full text of this circular:*

Basis of the Rights Issue:	One Rights Share for every New Share (equivalent to 20 Existing Shares) held on the Record Date
Number of Existing Shares in issue:	4,708,942,008 Existing Shares as at the Latest Practicable Date
Number of New Shares in issue immediately upon the Capital Reorganisation becoming effective:	235,447,100 New Shares
Outstanding Share Options granted:	Share Options entitling the holders thereof (excluding Mr. Siemens) to subscribe for 101,658,509 Existing Shares or 5,082,925 New Shares
Number of Rights Shares:	Not less than 235,447,100 Rights Shares and not more than 240,530,025 Rights Shares
Subscription price:	HK\$0.12 per Rights Share, payable in full upon valid acceptance
Basis of entitlement:	Rights Issue will be allotted in the proportion of one Rights Share for every New Share (equivalent to 20 Existing Shares) held by the Qualifying Shareholders on the Record Date. No provisional allotment of Rights Shares will be made to Overseas Shareholders
Excess Rights Shares application:	Qualifying Shareholders will have the right to apply for Rights Shares in excess of their provisional allotments
Amount to be raised by the Rights Issue:	<p>(i) Approximately HK\$28.25 million before expenses, and net proceeds of approximately HK\$25.75 million (assuming that no Share Options are exercised before the Record Date)</p> <p>(ii) Approximately HK\$28.86 million before expenses and net proceeds of approximately HK\$26.36 million (assuming that all Share Options excluding those held by Mr. Siemens are exercised before the Record Date)</p> <p>The estimated expenses of approximately HK\$2.50 million are expenses payable to advisers, auditors and printer relating to the Rights Issue.</p>



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## **TERMINATION OF THE UNDERWRITING AGREEMENT**

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**It should be noted that the Underwriting Agreement contains provisions granting Interventure the right, by notice in writing to the Company, to terminate its obligations thereunder on the occurrence of certain events.**

**Interventure may terminate its commitment under the Underwriting Agreement if prior to 4:30 p.m. on the second business day after the Latest Acceptance Date:**

- (a) any of the representations and warranties made by the Company set out in the Underwriting Agreement was untrue or incorrect in any material respect when made or deemed to be made or would, if repeated by reference to facts and circumstances in existence at any time prior to 4:30 p.m. on the second business day after the Latest Acceptance Date, be untrue or incorrect in any material respect;**
- (b) that the Company is otherwise materially in breach of any of its obligations under the Underwriting Agreement;**
- (c) any of the conditions to which the obligations of the Underwriter under the Underwriting Agreement are subject are not fulfilled or are likely to be not fulfilled by the deadlines provided in the Underwriting Agreement for any reason whatsoever; or**
- (d) that there shall have occurred any change in national or international, financial, monetary, economic or political conditions (including fluctuations in exchange rates) or there shall have occurred abnormal market conditions or the outbreak of conflict or hostilities or any other event which, in the reasonable opinion of the Underwriter, is or is likely to be materially prejudicial to the business or financial position of the Group taken as a whole or the Rights Issue.**

**If the Underwriter terminates the Underwriting Agreement, the Rights Issue will not proceed.**

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## EXPECTED TIMETABLE

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Latest time for lodging forms of proxy for the SGM .....	10:00 a.m., Tuesday, 19 November 2002
Date of SGM .....	10:00 a.m., Thursday, 21 November 2002
Announcement of results of SGM .....	Friday, 22 November 2002
Effective date of the Capital Reorganisation .....	Friday, 22 November 2002
Dealings in New Shares commence .....	9:30 a.m., Friday, 22 November 2002
Free exchange of existing share certificates for new share certificates commences .....	9:30 a.m., Friday, 22 November 2002
Temporary counter for trading in New Shares in board lots of 200 New Shares (in the form of existing certificate) opens .....	9:30 a.m., Friday, 22 November 2002
Existing counter for trading in Existing Shares (in board lots of 4,000 Existing Shares) closes .....	9:30 a.m., Friday, 22 November 2002
Designated broker starts to stand in the market to provide matching services .....	Friday, 22 November 2002
Latest time of dealings in New Shares on a cum-rights basis .....	4:00 p.m., Friday, 22 November 2002
Commencement of dealings in New Shares on an ex-rights basis .....	Monday, 25 November 2002
Latest time for lodging transfer of shares on a cum-rights basis .....	4:00 p.m., Tuesday, 26 November 2002
Despatch of Rights Issue Documents .....	Wednesday, 27 November 2002
Register of members closes .....	Wednesday, 27 November 2002
Record Date .....	Wednesday, 27 November 2002
Register of members reopens .....	Thursday, 28 November 2002
First day of dealings in nil-paid Rights Shares .....	Monday, 2 December 2002
Latest time for splitting nil-paid Rights Shares .....	4:00 p.m., Wednesday, 4 December 2002

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## EXPECTED TIMETABLE

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Existing counter for trading in New Shares in board lots of 10,000 New Shares (in the form of new share certificate) reopens .....	9:30 a.m., Friday, 6 December 2002
Parallel trading in New Shares (in the form of both existing and new share certificates) begins .....	9:30 a.m., Friday, 6 December 2002
Last day of dealings in nil-paid Rights Shares .....	Monday, 9 December 2002
Latest time for payment and acceptance of Rights Issue .....	4:00 p.m., Friday, 13 December 2002
Latest time for the Rights Shares to become unconditional .....	4:30 p.m., Tuesday, 17 December 2002
Announcement of results of the Rights Issue appears on newspapers .....	Wednesday, 18 December 2002
Despatch of refund cheques in respect of unsuccessful or partially unsuccessful applications for excess Rights Shares on or before .....	Thursday, 19 December 2002
Despatch of certificates for fully-paid Rights Shares on or before .....	Thursday, 19 December 2002
Dealings in fully-paid Rights Shares commence .....	9:30 a.m., Monday, 23 December 2002
Temporary counter for trading in New Shares in board lots of 200 New Shares (in the form of existing certificate) closes .....	4:00 p.m., Tuesday, 31 December 2002
Parallel trading in New Shares (in the form of both existing and new share certificates) ends .....	4:00 p.m., Tuesday, 31 December 2002
Free exchange of existing share certificates for new share certificates ends .....	Monday, 6 January 2003
Designated broker ceases to stand in the market to provide matching services ....	close of business on Wednesday, 8 January 2003

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## LETTER FROM THE BOARD

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**e-KONG**  
**e-Kong Group Limited**  
*(Incorporated in Bermuda with limited liability)*

*Executive Directors:*

Mr. Richard John Siemens (*Chairman*)  
Mr. Kuldeep Saran (*Deputy Chairman*)  
Mr. Derrick Francis Bulawa  
Mr. Lim Shyang Guey

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Non-executive Director:*

Mr. William Bruce Hicks

*Principal place of business:*

Suite 2101-3  
K. Wah Centre  
191 Java Road  
North Point  
Hong Kong

*Independent non-executive Directors:*

Mr. Shane Frederick Weir  
Mr. Matthew Brian Rosenberg

28 October 2002

*To the Shareholders and to the holders of Share Options  
(for information purpose only)*

Dear Sir or Madam,

**PROPOSED CAPITAL REORGANISATION  
PROPOSED RIGHTS ISSUE  
WHITEWASH WAIVER  
PROPOSED BYE-LAW AMENDMENTS  
AND  
GENERAL MANDATES TO ISSUE AND TO REPURCHASE NEW SHARES**

**INTRODUCTION**

On 7 October 2002, the Board announced that the Company proposed to effect the Capital Reorganisation and the Rights Issue. The Capital Reorganisation will be implemented by means of the Capital Reduction, the Share Consolidation, the Share Premium Cancellation and the Share Subdivision. The Company also proposed to raise approximately HK\$28.25 million before expenses by issuing not less than 235,447,100 Rights Shares at a price of HK\$0.12 per Rights Share, by way of the Rights Issue. The Company will provisionally allot one Rights Share for every New Share held by Qualifying Shareholders on the Record Date. The Rights Issue is not available to Overseas Shareholders.

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## LETTER FROM THE BOARD

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The Independent Shareholders will be advised by the Independent Director, Mr. Matthew Brian Rosenberg regarding the Rights Issue and the Whitewash Waiver. Altus has been appointed by the Company to advise the Independent Director on whether the terms of the Rights Issue and the granting of the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned.

The purpose of this circular is to give you further information on, among other things, the Capital Reorganisation, the Rights Issue and the Whitewash Waiver, the recommendation of the Independent Director and the advice of Altus in respect of the Rights Issue and the Whitewash Waiver and the notice convening the SGM thereof.

### **PROPOSED CAPITAL REORGANISATION**

Under the Capital Reorganisation, the capital of the Company will be reorganised in the following manner:

- (a) the nominal value of the issued Existing Shares will be reduced from HK\$0.02 to HK\$0.0005 per share by way of the cancellation of HK\$0.0195 of the paid-up capital on each issued Existing Share;
- (b) every 20 issued shares of HK\$0.0005 each arising from the Capital Reduction will then be consolidated into one New Share;
- (c) the amount of HK\$1,196,238,291 standing to the credit of the share premium account of the Company as at the date of the Announcement will be cancelled; and
- (d) each authorised but unissued Existing Share shall be sub-divided into two New Shares.

The credit amount of HK\$91,824,369 arising from the Capital Reduction and the credit amount of HK\$1,196,238,291 arising from the Share Premium Cancellation will both be set-off against the accumulated losses of the Company of HK\$680,601,035 as at 31 December 2001 and the credit balance of HK\$607,461,625 remaining after the set-off against the accumulated losses shall be credited to the contributed surplus account of the Company.

Each board lot of shares in the Company will be changed from 4,000 Existing Shares to 10,000 New Shares after the Capital Reorganisation.

### **Fractional entitlement of the New Shares**

Any fractional entitlement of the New Shares will be aggregated, sold and retained for the benefit of the Company.

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## LETTER FROM THE BOARD

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### **Free exchange of New Shares certificates and parallel trading arrangements**

Subject to the Capital Reorganisation becoming effective, which is expected to be on or around 22 November 2002, Shareholders may on or after 22 November 2002 until 6 January 2003 submit certificates for the Existing Shares to the Company's branch share registrars in Hong Kong, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, for exchange, at the expense of the Company, for certificates for the New Shares. Thereafter, certificates for the Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each new certificate issued for the New Shares. Certificates for Existing Shares will only be valid for delivery and settlement in respect of dealing for the period up to 31 December 2002. Thereafter, they will not be accepted for dealing purpose. Nevertheless, certificates for the Existing Shares will continue to be good evidence of legal title and may be exchanged for certificates for the New Shares at any time.

From 22 November 2002, the existing counter for trading in the Existing Shares in board lots of 4,000 Existing Shares will be temporarily closed. A temporary counter will be established for trading in the New Shares in board lots of 200 New Shares. Certificates for Existing Shares may only be traded at this temporary counter.

With effect from 6 December 2002, the existing counter for trading in Existing Shares will be reopened for trading in the New Shares in board lots of 10,000 New Shares.

From 6 December 2002 to 31 December 2002, both days inclusive, there will be parallel trading at the above two counters.

The temporary counter for trading in New Shares in board lots of 200 New Shares will be removed after the close of trading on 31 December 2002. Thereafter, trading will be in New Shares only and the existing share certificates for Existing Shares will cease to be marketable and will not be acceptable for dealing purpose. However, such share certificates will remain effective as documents of title.

### **Arrangement for the matching services of odd lots shares**

In order to alleviate the difficulties arising from the existence of odd lots of New Shares, Quam Securities Company Limited has agreed to stand in the market to provide matching services for the odd lots of New Shares on a best effort basis, during the period from 22 November 2002 to 8 January 2003, both days inclusive. Shareholders who wish to take advantage of this matching facility either to dispose of their odd lots of New Shares or top up to board lots of 10,000 New Shares may contact Mr. Paul Leung, Quam Securities Company Limited at Room 3308, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong at telephone number 2847-2239 during office hours.

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## LETTER FROM THE BOARD

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### Reasons for the Capital Reorganisation

The Company's issued Existing Shares of HK\$0.02 are being traded on the Stock Exchange below their nominal value. The Existing Shares were traded in the range of HK\$0.01 to HK\$0.013 during the one-month period up to and including the date of the Announcement. Under applicable laws and the Company's bye-laws, the Company is not allowed to issue shares below their nominal value. Accordingly, the Capital Reorganisation will facilitate the Rights Issue and future capital raisings by share issues of the Company.

As stated in the audited financial statements of the Company for the year ended 31 December 2001, the Company had accumulated losses of HK\$680,601,035 as at 31 December 2001. The Capital Reduction and the Share Premium Cancellation will allow the Company to eliminate the accumulated losses and as a result, will enable the Company to declare dividends to the Shareholders at an earlier opportunity than by generating profits to offset such losses.

The Board believes that the Capital Reorganisation is beneficial to the Company and the Shareholders as a whole.

### Effects of the Capital Reorganisation

Other than the expenses incurred relating to the Capital Reorganisation, implementation of the Capital Reorganisation will not, of itself, affect the underlying assets, business operations, management or financial position of the Company or the interests of the Shareholders.

The effects of the Capital Reorganisation are summarised below:

	<b>Immediately prior to the Capital Reorganisation (Note)</b>	<b>Upon the Capital Reorganisation becoming effective</b>
Nominal value of each ordinary share	HK\$0.02	HK\$0.01
Number of authorised ordinary shares	6,000,000,000	12,000,000,000
Authorised ordinary share capital	HK\$120,000,000	HK\$120,000,000
Number of ordinary shares in issue	4,708,942,008	235,447,100
Issued and fully paid up ordinary share capital	HK\$94,178,840	HK\$2,354,471

*Note:* The issued share capital immediately prior to the Capital Reorganisation is presented here on the assumption that no further Existing Shares would be issued as a result of any exercise of the rights under the share option scheme of the Company after the Latest Practicable Date but prior to the effective date of the Capital Reorganisation.

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## LETTER FROM THE BOARD

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### Conditions of the Capital Reorganisation

The completion of the Capital Reorganisation will be conditional upon, *inter alia*:

- (a) the approval by the Shareholders at the SGM of, among other things, the Capital Reduction, the Share Consolidation, the Share Premium Cancellation and the Share Subdivision;
- (b) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares; and
- (c) the publication of a notice in relation to the Capital Reduction and the Share Premium Cancellation in Bermuda in accordance with the Companies Act.

### Dealings

Subject to the granting of listing of, and permission to deal in, the New Shares on the Stock Exchange, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### Bye-law amendments

As the par value of the ordinary shares of the Company will be changed from HK\$0.02 per Existing Share to HK\$0.01 per New Share after the Capital Reorganisation, it is necessary for the Company to amend bye-law 3(1) of its bye-laws to reflect the new par value of the ordinary share. The proposed amendment to the Company's bye-law 3(1) is detailed under resolution numbered 1 in the notice of SGM. The new bye-law 3(1), if approved, will read as follows:

“The share capital of the Company shall be divided into ordinary shares of HK\$0.01 each and preference shares of HK\$1.00 each as at the date on which the amendment to these bye-laws comes into effect on or about 22 November 2002.”

It is also necessary for the Company to amend bye-law 9A (4)(1) of its bye-laws to reflect the new conversion rate of preference shares into ordinary shares of the Company after the Capital Reorganisation. The proposed amendment to this bye-law 9A (4)(1) is detailed under resolution numbered 1 in the notice of SGM. The new bye-law 9A (4)(1), if approved, will read as follows:

“Subject as hereinafter provided each holder of Preference Shares shall be entitled at the times and in the manner set out in this paragraph 4 to convert all or any of the Preference Shares into fully-paid ordinary shares (the “Ordinary Shares”) in the capital of the Company on the basis of one Ordinary Share for every \$1 in nominal value of the Preference Shares so converted or on such other basis as may be determined by the



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## LETTER FROM THE BOARD

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directors and agreed to by the holders of the Preference Shares and so in proportion for any greater or lesser nominal value of the Preference Shares (such rate as adjusted from time to time as provided in paragraph 6 being herein called the “Conversion Rate”), provided that if a Conversion Notice (as defined in sub-paragraph (3) below) is given in respect of part only of a holding of Preference Shares so that there would, following conversion, remain a number of Preference Shares in that holding smaller than that required to convert into One Ordinary Share at the Conversion Rate then applicable, then all Preference Shares in that holding shall be converted notwithstanding the figures inserted in the Conversion Notice.”

As at the Latest Practicable Date, the Company did not have any intention to issue any preference shares.

### PROPOSED RIGHTS ISSUE

#### Issue statistics

Basis of the Rights Issue:	One Rights Share for every New Share (equivalent to 20 Existing Shares) held on the Record Date
Number of Existing Shares in issue:	4,708,942,008 Existing Shares as at the Latest Practicable Date
Number of New Shares in issue immediately upon the Capital Reorganisation becoming effective:	235,447,100 New Shares
Outstanding Share Options granted:	Share Options entitling the holders thereof (excluding Mr. Siemens) to subscribe for 101,658,509 Existing Shares or 5,082,925 New Shares
Number of Rights Shares:	Not less than 235,447,100 Rights Shares and not more than 240,530,025 Rights Shares

As at the Latest Practicable Date, there were 101,658,509 outstanding Share Options entitling the holders thereof (excluding Mr. Siemens) to subscribe for 101,658,509 Existing Shares or 5,082,925 New Shares. If all of the subscription rights attaching to such Share Options (excluding the Share Options held by Mr. Siemens) are exercised and shares are issued and allotted pursuant to such exercise on or before the Record Date, the number of issued Existing Shares will increase by 101,658,509 and the number of Rights Shares which may be issued pursuant to the Rights Issue will increase by 5,082,925.

Save as disclosed above, as at the Latest Practicable Date, there were no other outstanding securities or instruments capable of conversion to shares of the Company. The Company expects to raise approximately HK\$28.25 million before expenses through the Rights Issue.

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## LETTER FROM THE BOARD

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### **Qualifying Shareholders**

The Company will send the Rights Issue Documents to the Qualifying Shareholders only.

To qualify for the Rights Issue, a Shareholder must:

- be registered as a member of the Company at the close of business on the Record Date; and
- have an address in Hong Kong which appears on the register of members of the Company on Record Date.

In order to be registered as a member on the Record Date, Shareholders must lodge any transfer of shares (with the relevant share certificates) with the Company's branch share registrars in Hong Kong by 4:00 p.m. on 26 November 2002.

The Company's branch share registrars in Hong Kong is:

Secretaries Limited  
5th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

### **Closure of register of members**

The register of members of the Company will be closed on 27 November 2002. No transfer of shares of the Company will be registered on that day.

### **Subscription Price**

The Subscription Price is HK\$0.12 per Rights Share, payable in full when a Qualifying Shareholder accepts his/her provisional allotment under the Rights Issue or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares subscribes for the Rights Shares.

Assuming that the Capital Reorganisation has become effective, the Subscription Price represents:

- (i) a discount of about 40% to the adjusted closing price of about HK\$0.20 per New Share as quoted on the Stock Exchange on 4 October 2002, being the last trading day prior to the date of the Announcement;

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## LETTER FROM THE BOARD

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- (ii) a discount of about 40% to the adjusted average closing price of about HK\$0.20 per New Share for the 10 trading days up to and including 4 October 2002, being the last trading day prior to the date of the Announcement;
- (iii) a discount of about 25% to the theoretical ex-rights price of about HK\$0.16 per New Share based on the adjusted closing price as quoted on the Stock Exchange on 4 October 2002, being the last trading day prior to the date of the Announcement;
- (iv) a discount of about 40% to the adjusted closing price of about HK\$0.20 per New Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (v) a discount of about 40% to the adjusted average closing price of about HK\$0.20 per New Share for the 10 trading days immediately prior to the Latest Practicable Date; and
- (vi) a discount of about 25% to the theoretical ex-rights price of about HK\$0.16 per New Share based on the adjusted closing price of HK\$0.20 per New Share as at the Latest Practicable Date.

The Subscription Price was determined after arm's length negotiations between the Company and Interventure. The Directors consider the Subscription Price to be fair and reasonable and to be in the interests of the Company and the Shareholders as a whole.

### **Status of the Rights Shares**

The Rights Shares, when allotted and fully-paid, will rank *pari passu* in all respects with the New Shares then in issue. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares.

### **Rights of Overseas Shareholders**

The Rights Issue Documents will not be registered under the securities legislation of any jurisdiction other than Hong Kong and Bermuda. Having reviewed the register of members, the Directors are of the view that the offer of the Rights Shares to the Overseas Shareholders would or might, in the absence of compliance with registration or other special formalities in other jurisdictions, be unlawful or impracticable. As such, the Company will send the Prospectus to the Overseas Shareholders for their information only but no provisional allotment of the Rights Shares to the Overseas Shareholders will be made and the Company will not send the provisional allotment letter or the form of application for excess Rights Shares to the Overseas Shareholders.

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## LETTER FROM THE BOARD

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If a premium (net of expenses) can be obtained, the Company will sell the provisional allotment of Rights Shares which would otherwise have been allotted to the Overseas Shareholders once dealings in the nil-paid Rights Shares commence. The proceeds of sale of individual Overseas Shareholders' nil-paid Rights Shares, after deducting expenses, of HK\$100 or more will be paid to the Overseas Shareholders in Hong Kong dollars. The Company will retain individual amount of less than HK\$100 for its own benefit.

### **Certificates of the Rights Shares**

Subject to the fulfillment of the conditions of the Rights Issue, certificates for all fully-paid Rights Shares are expected to be posted to the subscribers who have been allotted the relevant Rights Shares by 19 December 2002 at their own risk.

### **Conditions of the Rights Issue**

The Rights Issue is conditional upon, *inter alia*, the following conditions being fulfilled:

- (a) the Company despatching this circular to the Shareholders;
- (b) the passing by the Shareholders at the SGM of special resolution to approve the Capital Reorganisation;
- (c) the passing by the Independent Shareholders at the SGM of ordinary resolutions to approve the Rights Issue and the Whitewash Waiver;
- (d) the Capital Reorganisation being implemented;
- (e) the Executive granting to Interventure and parties acting in concert with it a waiver from making a general offer for the securities of the Company not already owned by Interventure and parties acting in concert with it and the satisfaction of any condition attached to the waiver by the Executive;
- (f) the Listing Committee of the Stock Exchange having granted (subject to allotment) and not revoked the listing of and permission to deal in the Rights Shares in nil-paid and fully-paid forms;
- (g) the registration of the Rights Issue Documents with the Companies Registry in Hong Kong; and
- (h) the filing of the Rights Issue Documents with the Registrar of Companies in Bermuda.

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## LETTER FROM THE BOARD

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The above conditions of the Rights Issue cannot be waived by the Company and/or the Underwriter under the terms of the Underwriting Agreement. If any of the conditions of the Rights Issue is not fulfilled on or around the date of issue of the Rights Issue Documents as may be required by the various regulatory authorities on 27 November 2002 (or such later date as the Underwriter and the Company shall agree, provided such later date being not later than 5:00 p.m. on 31 December 2002), neither the Underwriter nor the Company shall have any rights nor be subjected to any obligations arising from the Underwriting Agreement to accept their entitlement under the Rights Issue and the Rights Issue will lapse.

### **Reasons for the Rights Issue and the use of proceeds**

The Company is an investment holding company and its subsidiaries are principally engaged in provision of telecommunication services. The Group's flagship IDD and telecommunication business is operated by ZONE Group Inc. ("ZONE"), a wholly-owned subsidiary of the Company. ZONE currently has operations in the United States, Hong Kong and Singapore.

The estimated net proceeds of the Rights Issue after deducting expenses (assuming no outstanding Share Options are exercised before the Record Date) are approximately HK\$25.75 million. The Directors intend to apply the net proceeds as general working capital for the Group's existing telecommunication business. About 80% of the net proceeds will be used for working capital for ZONE in the United States to fund the development of the business until the revenues exceed the ongoing recurring costs. The remaining balance will be used for sales and marketing activities of ZONE in Hong Kong and Singapore. As at the Latest Practicable Date, the Group did not have any plans regarding significant capital expenditure or acquisition.

The Directors are of the opinion that the United States, being the largest international direct dial and domestic long distance market in the world, offers opportunities for growth as there is a high demand from both business and domestic markets for cost effective and efficient telecommunication services providers. As stated in the Company's year 2002 interim report, the Group will continue to invest in growing the revenue of the ZONE business in the United States, particularly in the enterprises and corporate markets. The Directors consider that the net proceeds raised from the Rights Issue together with the Group's internal financial resources and available borrowing facilities will enable the Group to benefit from the full potential of its existing telecommunication business.

The Directors believe that it is in the interests of the Company and the Shareholders as a whole to enlarge the capital base of the Company through the Rights Issue, since the enlarged capital base will support the continuing development of the Group's existing business activities. The Rights Issue will allow the Shareholders to participate in the growth of the Group.

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## LETTER FROM THE BOARD

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### UNDERWRITING ARRANGEMENTS OF THE RIGHTS ISSUE

#### Underwriting Agreement

Date:	4 October 2002
Underwriter:	Interventure Group Limited
Number of Shares underwritten:	Not less than 189,921,318 Rights Shares and not more than 195,004,243 Rights Shares ( <i>Note</i> )
Commission:	2% of the total issue price of the Rights Shares underwritten by the Underwriter
	The maximum commission to be received by the Underwriter will be approximately HK\$468,010.

*Note:* These figures exclude 45,525,782 Rights Shares provisionally allotted to Mr. Siemens, Mr. Saran and Mr. Hicks in respect of their respective beneficial shareholdings in the Company.

Interventure is an investment holding company beneficially owned as to  $\frac{1}{3}$  by Mr. Siemens,  $\frac{1}{3}$  by Mr. Saran and  $\frac{1}{3}$  by Mr. Hicks whose ordinary course of business does not include underwriting of securities. Mr. Siemens, Mr. Saran and Mr. Hicks and companies controlled by them are beneficially interested in 910,515,642 Existing Shares in aggregate, representing about 19.34% of the Company's existing share capital.

The Underwriting Agreement is a connected transaction which is exempted from Shareholders' approval requirements pursuant to Rule 14.24(5) of the Listing Rules.

#### Irrevocable undertakings from Mr. Siemens, Mr. Saran and Mr. Hicks

Mr. Siemens has undertaken that the 513,529,500 Existing Shares beneficially owned by companies controlled by him will remain registered in their respective names from the date of the Announcement up to the Record Date. Mr. Siemens has also irrevocably undertaken to subscribe or procure subscribers for their provisional entitlements in full, amounting to 25,676,475 Rights Shares.

Mr. Hicks has undertaken that the 210,036,642 Existing Shares beneficially owned by him and a company controlled by him will remain registered in their respective names from the date of the Announcement to the Record Date. Mr. Hicks has also irrevocably undertaken to subscribe or procure subscribers for their provisional entitlements in full, amounting to 10,501,832 Rights Shares.

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## LETTER FROM THE BOARD

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Mr. Saran has undertaken that the 186,949,500 Existing Shares beneficially owned by him and a company controlled by him will remain registered in their respective names from the date of the Announcement to the Record Date. Mr. Saran has also irrevocably undertaken to subscribe or procure subscribers for their provisional entitlements in full, amounting to 9,347,475 Rights Shares.

Each of Mr. Siemens, Mr. Hicks and Mr. Saran has not yet decided whether he will or will not apply for excess Rights Shares.

### **Termination of the Underwriting Agreement**

It should be noted that the Underwriting Agreement contains provisions granting Interventure the right, by notice in writing, to terminate its obligations thereunder on the occurrence of certain events.

Interventure may terminate its commitment under the Underwriting Agreement if prior to 4:30 p.m. on the second business day after the Latest Acceptance Date:

- (a) any of the representations and warranties made by the Company set out in the Underwriting Agreement was untrue or incorrect in any material respect when made or deemed to be made or would, if repeated by reference to facts and circumstances in existence at any time prior to 4:30 p.m. on the second business day after the Latest Acceptance Date, be untrue or incorrect in any material respect;
- (b) that the Company is otherwise materially in breach of any of its obligations under the Underwriting Agreement;
- (c) any of the conditions to which the obligations of the Underwriter under the Underwriting Agreement are subject are not fulfilled or are likely to be not fulfilled by the deadlines provided in the Underwriting Agreement for any reason whatsoever; or
- (d) that there shall have occurred any change in national or international, financial, monetary, economic or political conditions (including fluctuations in exchange rates) or there shall have occurred abnormal market conditions or the outbreak of conflict or hostilities or any other event which, in the reasonable opinion of the Underwriter, is or is likely to be materially prejudicial to the business or financial position of the Group taken as a whole or the Rights Issue.

# LETTER FROM THE BOARD

## CHANGE IN SHAREHOLDING STRUCTURE

Set out below are tables showing the changes in shareholding structure after the Capital Reorganisation and the Rights Issue:

	Shareholding structure as at the Latest Practicable Date		Upon the Capital Reorganisation becoming effective but before the Rights Issue		After the Rights Issue (Assuming that all Share Options except Share Options held by Mr. Siemens are exercised before the Record Date, and the Underwriter is not required to take up any Rights Shares pursuant to the Underwriting Agreement) (Note)		After the Rights Issue (Assuming that all Share Options except Share Options are held by Mr. Siemens are exercised before the Record Date, and the Underwriter is required to take up all Rights Shares pursuant to the Underwriting Agreement)		After the Rights Issue (Assuming that all Share Options except Share Options are held by Mr. Siemens are exercised before the Record Date, and the Underwriter is required to take up all Rights Shares pursuant to the Underwriting Agreement) (Note)	
	Number of Existing Shares	%	Number of New Shares	%	Number of New Shares	%	Number of New Shares	%	Number of New Shares	%
Underwriter	–	–	–	–	–	–	189,921,318	40.33	195,004,243	40.54
Mr. Siemens	513,529,500	10.91	25,676,475	10.91	51,352,950	10.67	51,352,950	10.91	51,352,950	10.67
Mr. Hicks	210,036,642	4.46	10,501,832	4.46	21,003,664	4.37	21,003,664	4.46	21,003,664	4.37
Mr. Saran	186,949,500	3.97	9,347,475	3.97	18,694,950	3.89	18,694,950	3.97	18,694,950	3.89
Subtotal	910,515,642	19.34	45,525,782	19.34	91,051,564	18.93	280,972,882	59.67	286,055,807	59.46
Other Directors	100,000	0.00	5,000	0.00	4,891,850	1.02	5,000	0.00	2,445,925	0.51
Public Shareholders	3,798,326,366	80.66	189,916,318	80.66	385,116,636	80.05	189,916,318	40.33	192,558,318	40.03
Total	<u>4,708,942,008</u>	<u>100.00</u>	<u>235,447,100</u>	<u>100.00</u>	<u>481,060,050</u>	<u>100.00</u>	<u>470,894,200</u>	<u>100.00</u>	<u>481,060,050</u>	<u>100.00</u>

*Note:* The Share Options held by Mr. Siemens will not be exercised between the Latest Practicable Date and the SGM in accordance with the requirement for Whitewash Waiver.

## WHITEWASH WAIVER

None of Interventure or any of its concert parties has acquired any voting rights of the Company for the period from 8 April 2002 (being six months prior to the date of the Announcement) to the Latest Practicable Date. In the event that Interventure is called upon to subscribe for its obligations under the Underwriting Agreement in full, the aggregate shareholding interests of Interventure and parties acting in concert with it will increase from about 19.34% to about 59.67% (assuming no Share Options are duly exercised before the Record Date). Under Rule 26 of the Takeovers Code, the fulfillment of Interventure's proposed underwriting commitment and parties acting in concert with Interventure taking up their Rights Shares entitlement together with any excess Rights Shares that they may take up will potentially trigger a mandatory general offer by Interventure and parties acting in concert with it for all the securities of the Company other than those already owned by Interventure and parties acting in concert with it. Application has been made by Interventure to the Executive for the Whitewash Waiver pursuant to Note 1 of the Notes on Dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to the approval of the Independent Shareholders taken on a poll at the SGM. The Executive has indicated that it will grant the Whitewash Waiver subject to the approval of the Independent



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## LETTER FROM THE BOARD

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Shareholders at the SGM, to waive any obligations to make a mandatory general offer which may result from completion of the Rights Issue. If the Whitewash Waiver is not approved by the Independent Shareholders, the Rights Issue will not proceed.

If upon completion of the Rights Issue, Interventure and parties acting in concert with it hold more than 50% of the issued share capital of the Company, Interventure and parties acting in concert with it will be allowed under the Takeovers Code to increase their shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a mandatory general offer.

### **WARNING OF THE RISK OF DEALINGS IN SHARES AND NIL-PAID RIGHTS SHARES**

**New Shares will be dealt with on an ex-rights basis from 25 November 2002. Dealings in the Rights Shares in the nil-paid form will take place from 2 December 2002 to 9 December 2002 (both days inclusive). If prior to 4:30 p.m. on 17 December 2002, the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated by Interventure, the Rights Issue will not proceed.**

**Any person contemplating buying or selling New Shares from 25 November 2002 to 17 December 2002 which all such conditions are fulfilled (which is expected to be 17 December 2002), and contemplating buying or selling nil-paid Rights Shares between 2 December 2002 and 9 December 2002 (both days inclusive), bears the risk that the Rights Issue may not become unconditional and may not proceed.**

**Investors may wish to obtain professional advice regarding dealings in New Shares or nil-paid Rights Shares during these periods.**

### **PROCEDURE FOR ACCEPTANCE OR TRANSFER**

Subject to the Rights Issue being approved at the SGM and the Capital Reorganisation becoming effective, provisional allotment letters will be despatched to the Qualifying Shareholders to subscribe for the Rights Shares. If you wish to exercise your rights to subscribe for the Rights Shares, you must lodge the provisional allotment letter in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the branch share registrars of the Company in Hong Kong, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong by 4:00 p.m. on 13 December 2002. All remittances must be made by cheque or cashier's order in Hong Kong dollars. Cheques must be drawn on an account with, and cashier's orders must be issued by, a bank in Hong Kong and made payable to "e-Kong Group Limited - Rights Issue Account" and crossed "Account Payee Only".

It should be noted that unless the provisional allotment letter, together with the appropriate remittance, has been lodged with Secretaries Limited at 5th Floor, Wing On

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## LETTER FROM THE BOARD

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Centre, 111 Connaught Road Central, Hong Kong by 4:00 p.m. on 13 December 2002 whether by the original allottee or any person to whom the rights have been validly transferred, the relevant provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

The provisional allotment letter, to be sent together with the Prospectus, will contain full information regarding the procedure to be followed if you wish to accept only part of your provisional allotment or if you wish to renounce all or part of your provisional allotment.

If you wish to accept only part of your provisional allotment or transfer part of your rights to subscribe for the Rights Shares provisionally allotted thereunder, or to transfer your rights to more than one person, the entire provisional allotment letter must be surrendered and lodged for cancellation by not later than 4:00 p.m. on 4 December 2002 to the Company's branch share registrars in Hong Kong, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong which will cancel the original provisional allotment letters and issue new provisional allotment letters in the denominations required.

None of the Rights Issue Documents will be registered or filed under the securities or equivalent legislation of any jurisdiction other than Hong Kong and Bermuda. Accordingly, it is the responsibility of anyone outside Hong Kong wishing to make an application for the Rights Shares to satisfy himself, before acquiring any rights to subscribe for the provisionally allotted Rights Shares, as to the observance of the laws and regulations of all relevant territories, including the obtaining of any governmental or other consents and to pay any taxes and duties required to be paid in such territory in connection therewith. No application for Rights Shares will be accepted from any person whose registered address is, or as the holder of such Rights Shares would be, in any territory outside Hong Kong. The Company reserves the right to refuse to accept any application for Rights Shares if it believes that such acceptance would violate the applicable securities or other laws or regulations of any jurisdiction.

All cheques and cashier's orders will be presented for payment following receipt and all interest earned on such monies will be retained for the benefit of the Company. Any provisional allotment letter in respect of which the accompanying cheque is dishonoured on first presentation is liable to be rejected, and in that event the provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If the Underwriter exercises the right to terminate its obligations under the Underwriting Agreement, the monies received in respect of acceptances of the Rights Shares will be returned to the Qualifying Shareholders or such other persons to whom the Rights Shares in their nil-paid forms shall have been validly transferred without interest, by means of cheques despatched by the ordinary post at the risk of such Qualifying Shareholders or such other persons on or about 19 December 2002.

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## LETTER FROM THE BOARD

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### APPLICATION FOR EXCESS RIGHTS SHARES

Qualifying Shareholders shall be entitled to apply for any unsold entitlements of Overseas Shareholders and any Rights Shares provisionally allotted but not accepted by Qualifying Shareholders. Application may be made by completing the form of application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for.

If you wish to apply for any Rights Shares in addition to your provisional allotment under the Rights Issue, you must complete and sign the form of application for excess Rights Shares, which will be despatched to the Qualifying Shareholders after the Rights Issue having been approved at the SGM and the Capital Reorganisation becoming effective, and lodge the form of application for excess Rights Shares, together with a separate remittance for the amount payable on application in respect of the excess Rights Shares applied for, with Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong by not later than 4:00 p.m. on 13 December 2002. All remittances must be made by cheque or cashier's order in Hong Kong Dollars. Cheques must be drawn on an account with, and cashier's orders must be issued by, a bank in Hong Kong and made payable to "e-Kong Group Limited – Excess Application Account" and crossed "Account Payee Only". Secretaries Limited will notify you of any allotment of excess Rights Shares made to you. The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis, but will give preference to topping-up odd lots to whole board lots.

All cheques and cashier's orders will be presented for payment following receipt and all interest earned on such monies will be retained for the benefit of the Company. Any form of application for excess Rights Shares in respect of which the accompanying cheque is dishonoured on first presentation is liable to be rejected.

If the Underwriter exercises the right to terminate its obligations under the Underwriting Agreement, the monies received in respect of applications for excess Rights Shares will be returned to the Qualifying Shareholders without interest, by means of cheques despatched by ordinary post to the Qualifying Shareholders at their risk on or before 19 December 2002.

If no excess Rights Shares are allotted to the Qualifying Shareholders, a refund cheque for the full amount tendered on application is expected to be posted to the Qualifying Shareholders on or before 19 December 2002. If the number of excess Rights Shares allotted to the Qualifying Shareholders is less than that applied for, a cheque for the surplus application monies is expected to be posted to the Qualifying Shareholders on or before 19 December 2002.

The form of application for excess Rights Shares is for use only by the Qualifying Shareholders to whom it is addressed and is not transferable. All documents, including cheques for amounts due, will be sent by ordinary post at the risk of the persons entitled thereto to their registered addresses.

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## LETTER FROM THE BOARD

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### LISTING AND DEALINGS

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the New Shares and the Rights Shares in both their nil-paid and fully-paid forms. It is expected that dealings in the Rights Shares in their nil-paid forms will take place from 2 December 2002 to 9 December 2002, both days inclusive.

No part of the share capital of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

Subject to the granting of listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements will be made to enable the Rights Shares in both their nil-paid and fully-paid forms to be admitted into CCASS.

For the purpose of trading on the Stock Exchange, a board lot for the Rights Shares in both their nil-paid and fully-paid forms will be 10,000 New Shares. Dealings in the nil-paid and fully-paid Rights Shares will be subject to payment of stamp duty in Hong Kong.

### ADJUSTMENT TO THE EXERCISE PRICES OF THE SHARE OPTIONS

Subject to the Capital Reorganisation becoming effective and the completion of the Rights Issue, the exercise prices of the Share Options may be required to be adjusted pursuant to the share options scheme adopted on 25 October 1999 (as amended). The Company will inform the holders of Share Options regarding the adjustment which is expected to be around 28 November 2002.

### FUTURE INTENTION OF INTERVENTURE

The Directors have been informed by Interventure that it has no intention to make any changes to the Board, the continued employment of the employees of the Group, the continuing of the Group's existing business or the deployment of fixed assets. The long-term justification for the Rights Issue is explained in the section headed "Reasons for the Rights Issue and the use of proceeds".

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## LETTER FROM THE BOARD

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### GENERAL MANDATES

A resolution will be put to the Shareholders at the SGM to approve the granting of an unconditional general mandate (the “Issue Mandate”) to the Directors to allot, issue and deal with additional shares and other securities of the Company equal to a maximum of 20% of (i) issued share capital immediately after the Capital Reorganisation becoming effective; or (ii) subject to the completion of the Rights Issue, the issued share capital of the Company as enlarged by the issue of the Rights Shares, whichever is the greater.

The Issue Mandate will take effect upon completion of the Rights Issue and will continue in force until the conclusion of the next annual general meeting of the Company unless it is renewed at such meeting or the expiry of the period within which the next annual general meeting of the Company is required by any applicable law or the bye-laws of the Company to be held or until revoked or varied by an ordinary resolution of the Shareholders in a general meeting prior to the next annual general meeting.

Upon the Issue Mandate taking effect, the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and otherwise deal with additional shares and other securities of the Company pursuant to the ordinary resolution passed by the Shareholders at the annual general meeting held on 28 June 2002 will be revoked.

It is also intended that a resolution be put to the Shareholders at the SGM granting the Directors a general mandate (the “Repurchase Mandate”) authorising the repurchase by the Company on the Stock Exchange of up to 10% of the aggregate amount of the issued shares immediately after Capital Reorganisation becoming effective or subject to the completion of the Rights Issue, the share capital in issue of the Company as enlarged by the issue of the Rights Shares. The Repurchase Mandate will remain effective until the conclusion of the next annual general meeting of the Company is required by any applicable law or the bye-laws of the Company to be held or until revoked or varied by an ordinary resolution of the Shareholders, whichever occurs earlier.

An explanatory statement as required by the relevant provisions of the Listing Rules concerning the regulation of repurchases by companies of their own securities on the Stock Exchange is set out in Appendix II to this circular.

### SGM

There is set out on pages 102 to 107 of this circular a notice convening the SGM to be held at 10:00 a.m. on 21 November 2002 at Room 3805, Tower II, Lippo Centre, 89 Queensway, Hong Kong, at which resolutions will be proposed to consider and, if thought fit, by the Shareholders to approve the Capital Reorganisation, the Rights Issue, the Whitewash Waiver, the Issue Mandate and Repurchase Mandate.

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## LETTER FROM THE BOARD

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Interventure and parties acting in concert with it will be precluded from voting on the resolutions numbered 2 and 3 as set out in the notice of the SGM to approve the Rights Issue and the Whitewash Waiver.

You will find enclosed a form of proxy for use at the SGM. If you are not able to attend the SGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's branch share registrars in Hong Kong, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

### RECOMMENDATION

Your attention is drawn to the letter from the Independent Director set out in this circular which contains his recommendation to the Independent Shareholders as to voting at the SGM in relation to the Rights Issue and the Whitewash Waiver.

Your attention is also drawn to the letter from Altus, for incorporation into the circular, which contains its advice to the Independent Director as regards the Rights Issue and the Whitewash Waiver and the principal factors and reasons considered by it in arriving thereat. The text of the letter from Altus is set out in this circular.

The Independent Director has considered the terms of the Rights Issue and the Whitewash Waiver and the advice given by Altus and recommends the Independent Shareholders to vote in favour of the ordinary resolutions numbered 2 and 3 to be proposed at the SGM in relation to the Rights Issue and the Whitewash Waiver.

The Directors consider the proposed resolutions for the Capital Reorganisation and the granting of the Issue Mandate and the Repurchase Mandate are in the interests of the Company. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions numbered 1, 4, 5 and 6 to be proposed at the SGM.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully  
For and on behalf of the Board  
**e-Kong Group Limited**  
**Richard John Siemens**  
*Chairman*

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## LETTER FROM THE INDEPENDENT DIRECTOR

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28 October 2002

*To the Independent Shareholders*

Dear Sir or Madam,

**PROPOSED CAPITAL REORGANISATION  
PROPOSED RIGHTS ISSUE  
WHITEWASH WAIVER  
PROPOSED BYE-LAW AMENDMENTS  
AND  
GENERAL MANDATES TO ISSUE AND TO REPURCHASE NEW SHARES**

I refer to the letter from the Board set out in the circular dated 28 October 2002 (the “Circular”) of which this letter forms part. Capitalised terms defined in the Circular shall have the same meaning when used herein unless the context otherwise requires.

I have been appointed as the Independent Director to consider the Rights Issue and the Whitewash Waiver and to advise the Independent Shareholders as to the fairness and reasonableness of the Rights Issue and the Whitewash Waiver and to recommend whether or not the Independent Shareholders should vote for the resolutions to be proposed at the SGM to approve the Rights Issue and the Whitewash Waiver. Altus has been appointed to advise the Independent Director in relation to the terms of the Rights Issue and the Whitewash Waiver.

### **RECOMMENDATION**

I wish to draw your attention to the letter from the Board and the letter from Altus to the Independent Director which contains its advice to me in relation to the Rights Issue and the Whitewash Waiver as set out in the Circular.

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## LETTER FROM THE INDEPENDENT DIRECTOR

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Having taken into account principal factors and reasons considered by and the opinion of Altus as stated in its letter of advice, I consider the terms of the Rights Issue and the Whitewash Waiver to be fair and reasonable so far as the interests of the Independent Shareholders are concerned and to be in the interests of the Company and the Shareholders. I therefore recommend the Independent Shareholders to vote in favour of the resolutions approving the Rights Issue and the Whitewash Waiver to be proposed at the SGM.

Yours faithfully,

Independent Director

**Matthew Brian Rosenberg**

*Independent Non-executive Director*



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## LETTER FROM ALTUS

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*The following is the text of the letter of advice to the Independent Director from Altus dated 28 October, 2002 prepared for incorporation in this circular.*

### ALTUS CAPITAL LIMITED

28 October, 2002

The Independent Director  
e-Kong Group Limited  
Suite 2101-3  
K. Wah Centre  
191 Java Road  
North Point  
Hong Kong

Dear Sirs,

#### **PROPOSED RIGHTS ISSUE IN THE PROPORTION OF ONE RIGHTS SHARE FOR EVERY NEW SHARE AT HK\$0.12 PER RIGHTS SHARE AND THE WHITEWASH WAIVER**

#### **INTRODUCTION**

We refer to the circular to the Shareholders dated 28 October, 2002 (the “Circular”) issued by the Company of which this letter forms part and to our appointment as independent financial adviser to the Independent Director in respect of the Rights Issue and the Whitewash Waiver, the details of which are set out in the Letter from the Board contained in this Circular. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular of which this letter forms part unless the context otherwise requires.

The Company is proposing a Capital Reorganisation which entails the reduction of the nominal value of the issued ordinary share capital of the Company from HK\$0.02 per Existing Share to HK\$0.0005 per share and the subsequent consolidation of every 20 issued shares of HK\$0.0005 each into one New Share of HK\$0.01 each. Subject to, among others, the completion of the Capital Reorganisation, the Company proposes the Rights Issue in the proportion of one Rights Share for every one New Share held by the Qualifying Shareholders.

The Rights Issue would increase the existing issued share capital of the Company by more than 50 per cent. and thus requires the approval of the Independent Shareholders at the SGM.

As at the Latest Practicable Date, Mr. Siemens, Mr. Hicks and Mr. Saran are beneficially interested in an aggregate of approximately 19.34 per cent. of the existing issued share capital of the Company and have undertaken to accept or procure acceptance of their entitlement to

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## LETTER FROM ALTUS

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the Rights Shares which will be provisionally allotted to them. The Underwriter is a company beneficially owned as to  $\frac{1}{3}$  by Mr. Siemens,  $\frac{1}{3}$  by Mr. Hicks and  $\frac{1}{3}$  by Mr. Saran. After the Rights Issue and assuming no exercise of Share Options, in the event that the Underwriter takes up its underwriting commitment in full, the aggregate shareholding interests of the Underwriter and parties acting in concert with it (including Mr. Siemens, Mr. Hicks and Mr. Saran) will increase from about 19.34 per cent. to about 59.67 per cent..

If the Underwriter and parties acting in concert with it become holders of shares of 30 per cent. or more as a result of them applying for excess Rights Shares under the Rights Issue or fulfilling its obligations to underwrite the Rights Shares as described above, the Underwriter would be obliged to make a mandatory general offer under Rule 26 of the Takeovers Code. As the Underwriter does not intend to make such a general offer, it has made a formal application to the SFC for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, will be subject to a vote, by way of poll, by the Independent Shareholders at the SGM. The Rights Issue will not proceed if the Whitewash Waiver is not approved by the Independent Shareholders.

The Independent Director has been appointed to advise the Independent Shareholders in relation to the Rights Issue and the Whitewash Waiver. In assessing the eligibility of the Directors to be an Independent Director, we have considered and taken into account the confirmations by each of the Directors to the SFC in respect of their interests in the Company and have noted the following:

- (a) Mr. Siemens, Chairman of the Company and an executive Director, has shareholding interest in 513,529,500 Existing Shares and is interested in Share Options exercisable into 28,700,000 Existing Shares, representing approximately 10.91 per cent. and 0.61 per cent. of the existing issued share capital of the Company respectively as at the Latest Practicable Date. He has given an irrevocable undertaking to accept or procure acceptance of his entitlements to the Rights Issue. In addition, Mr. Siemens has a  $\frac{1}{3}$  shareholding interest in the Underwriter;
- (b) Mr. Saran, Deputy Chairman of the Company and an executive Director, has shareholding interest in 186,949,500 Existing Shares or approximately 3.97 per cent. of the existing issued share capital of the Company as at the Latest Practicable Date and has given an irrevocable undertaking to accept or procure acceptance of his entitlements to the Rights Issue. In addition, Mr. Saran has a  $\frac{1}{3}$  shareholding interest in the Underwriter;
- (c) Mr. Derrick Francis Bulawa, an executive Director and the Chief Executive Officer of the Company, is remunerated monetarily as an employee and is interested in Share Options exercisable into 38,518,509 Existing Shares representing approximately 0.82 per cent. of the existing issued share capital of the Company as at the Latest Practicable Date;

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## LETTER FROM ALTUS

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- (d) Mr. Lim Shyang Guey, an executive Director, holds the position of Vice-President, Corporate Development in the Company. Mr. Lim is remunerated monetarily as an employee and is interested in Share Options exercisable into 10,300,000 Existing Shares representing approximately 0.22 per cent. of the existing issued share capital of the Company as at the Latest Practicable Date;
- (e) Mr. Hicks, a non-executive Director, has shareholding interest in 210,036,642 Existing Shares or approximately 4.46 per cent. of the existing issued share capital of the Company as at the Latest Practicable Date and has given an irrevocable undertaking to accept or procure acceptance of his entitlements to the Rights Issue. In addition, Mr. Hicks has a  $\frac{1}{3}$  shareholding interest in the Underwriter; and
- (f) Mr. Shane Frederick Weir, an independent non-executive Director, has shareholding interest in 100,000 Existing Shares or approximately 0.002 per cent. of the existing issued share capital of the Company as at the Latest Practicable Date. Mr. Weir is a consultant to a firm of solicitors which has provided advice to a subsidiary of the Company in 2001. In 2000, the aforesaid firm also provided advice to a company which Mr. Siemens, Mr. Saran and Mr. Hicks hold beneficial interests.

Based on the foregoing, we consider that Mr. Siemens, Mr. Saran, Mr. Bulawa, Mr. Lim, Mr. Hicks and Mr. Weir will not be eligible to be an Independent Director. Thus, only Mr. Matthew Brian Rosenberg, an independent non-executive Director, is eligible to be appointed as an Independent Director.

Altus Capital Limited has been appointed by the Company to advise the Independent Director on the fairness and reasonableness of the Rights Issue and the Whitewash Waiver so far as the interests of the Independent Shareholders are concerned.

### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied to a considerable extent on the information, statements, opinion and representations supplied to us by the Company and the Directors and we have assumed that all such information, statements, opinions and representations contained or referred to in the Circular were true and accurate and complete at the time they were made and continue to be true at the date of the Circular, and we have relied on the same. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the Letter from the Board in this Circular were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular. We have also discussed with the management of the Group their plans for the Group and the prospects of the businesses of the Group.

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## LETTER FROM ALTUS

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We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the proposed Rights Issue and Whitewash Waiver and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinions. We have no reason to suspect that any material facts or information (which is known to the Company) have been omitted or withheld from the information supplied or opinions expressed in the Circular nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted an independent in-depth investigation into the business and affairs of the Group.

Also, we have not considered the tax consequences for Shareholders in relation to the Rights Issue as these are specific to their own individual circumstances. Independent Shareholders should take into account their tax position when considering the Rights Issue and the Whitewash Waiver and to consult their professional advisers if in any doubt.

### **PRINCIPAL FACTORS CONSIDERED**

In arriving at our recommendation in relation to the Rights Issue and the Whitewash Waiver, we have considered the following:

**(i) Business and future prospects of the Group and the use of proceeds of the Rights Issue**

The Group is principally engaged in the provision of telecommunication services. In addition, it also provides internet security solution services, on-line insurance services and corporate events management services.

In the six months ended 30th June, 2002, turnover of the Group increased by 10.8 per cent. to about HK\$141 million compared with about HK\$127 million a year ago. On the back of ongoing improvements in operational efficiencies, operating loss for the period reduced to about HK\$79 million compared with about HK\$127 million for the previous corresponding period. In line with the above, net loss attributable to shareholders for the period declined to about HK\$115 million from about HK\$537 million.

During the period, turnover of the Group's ZONE telecommunication business in Hong Kong, Singapore and the United States, which accounted for 93 per cent. of its total revenue, increased by 24.9 per cent. to HK\$131.1 million. Although the ZONE business in the US ("ZONE US") achieved revenue growth of 37.6 per cent. during the period, such revenue fell short of the Group's expectation as a result of the general slow down in the US market. Moreover, additional costs were incurred by the Group in product development and operational set-up to meet the more demanding needs of ZONE US' enterprise and corporate customers, resulting in an operating loss of HK\$56.9 million during the period. Further development and operational set-up costs will be

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## LETTER FROM ALTUS

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incurred in respect of ZONE US, however, the Directors are of the view that such operating expenses have peaked and they expect expenses to decrease in the coming period. Based on our discussion with the management of the Company, barring any unforeseen circumstances, we concur with the views of the Directors.

Having attained the necessary economies of scale, the ZONE business in Hong Kong (“ZONE HK”) achieved positive earning before interest, tax, depreciation and amortisation (EBITDA) despite intense competition and difficult economic conditions. The Directors informed that minimal capital expenditure is expected for ZONE HK in the coming year as its existing facilities are able to accommodate more than 60 per cent. growth in its current volume of business. The Group’s ZONE business in Singapore (“ZONE SG”) also improved as a result of increased sales and marketing initiatives, especially in the enterprise and corporate sectors. For the six months ended 30th June, 2002, revenue of ZONE SG was about HK\$13 million, representing approximately 91 per cent. increase compared with the previous corresponding period.

Meanwhile, revenue from the Group’s other business segments declined to HK\$9.4 million in the period. The Directors stated that the Group will continue to divest the investments it acquired in the past which are no longer strategic to its core businesses.

In terms of the Group’s prospects, the Directors believe that, notwithstanding the difficult operating environment, the Group’s telecommunication business which comprises international direct dialing (IDD), domestic long distance (DLD) and related services, has the competitive edge to grow its market share whilst continuing to improve its operating efficiencies. Although the development and revenue growth of ZONE US have been slower than expected as a result of the general economic downturn in US, the Group will continue to invest in expanding its customer base, particularly in the enterprise and corporate markets. ZONE HK and ZONE SG are expected to contribute positively towards the Group’s cashflow with the continued marketing effort, although at a smaller extent and slower rate than previously forecasted.

In line with these objectives, the estimated proceeds of the Rights Issue of approximately HK\$28.2 million before expenses will be utilised as general working capital for the Group’s telecommunication business. In particular, approximately 80% of the net proceeds of the Rights Issue will be applied for the growth of ZONE US and the balance for mainly the marketing plans of ZONE HK and ZONE SG.

The Directors opine that under the current difficult operating environment, it is crucial for the Group to maintain sufficient resources. With ZONE HK and ZONE SG having achieved the economic scale to produce positive cashflow and a substantial part of the capital expenditure of ZONE US having been incurred, these businesses have reached a level where potentially large revenue growth can be recognised with adequate marketing and business development efforts. An absence of financial resources will result in the Group not being able to achieve its revenue objective and to benefit fully from the potential of these investments.

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## LETTER FROM ALTUS

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As discussed in the section headed “Cash position” below, the cash position of the Group declined from HK\$111.3 million as at 31st December, 2001 to HK\$33.1 million as at 30th June, 2002. Cashflow generated from ZONE HK and ZONE SG has been lower than expected and, together with the Group’s current internal resources, is not sufficient to meet the future cashflow requirements of the Group, particularly for the business and revenue growth of ZONE US. In the six months ended 30th June, 2002, the Group incurred net cash outflow from operating activities of about HK\$75.7 million. It is expected that the Group will continue to incur net cash outflow although at a smaller extent, until its revenues, especially in respect of ZONE US, exceed its ongoing operating costs.

The Rights Issue is therefore important to the Group as, in the absence of the Rights Issue, the Group will not be able to (a) grow the scale of ZONE US to its projected positive cashflow levels and (b) further enhance the revenue of ZONE HK and ZONE SG, which are already generating positive cashflow. The potential of the ZONE business will thus not be fully benefited.

### **(ii) Application of proceeds of previous Rights Issue**

The Company raised net proceeds of approximately HK\$128 million from a rights issue of the Company as announced on 10th October, 2001 (the “Previous Rights Issue”). As stated in the circular to Shareholders dated 7th November 2001, the Directors expected that (a) at least 75 per cent. of the net proceeds of the Previous Rights Issue would be used for general working capital purposes for ZONE Group Inc., a wholly-owned subsidiary of the Company with operations in the USA, Hong Kong and Singapore; and (b) the balance would be used for general working capital purposes for the Group. The ZONE telecommunication business accounted for 93 per cent. of the Group’s total revenue for the six months ended 30th June, 2002, out of which ZONE US accounted for about 58 per cent. while ZONE HK and ZONE SG accounted for 42 per cent. of such revenue from the ZONE telecommunication business.

The Directors have confirmed that the proceeds from the Previous Rights Issue have been applied in accordance with their intended uses albeit within a shorter period. In particular, ZONE US incurred additional costs and higher than expected expenditure in product development and operational set-up to cater for the needs of the enterprise and corporate customers. Cashflow of ZONE HK and ZONE SG although positive, were lower than the Company’s projection due to the downturn in the general economic situation.

As mentioned above, ZONE HK and ZONE SG have achieved the economic scale to produce positive cashflow, although such cashflow is insufficient for the current requirements of the Group as a whole. Considering the fact that substantial part of the capital expenditure of ZONE US has already been incurred, the Directors believe these businesses have reached a level where potentially large revenue growth can be recognised

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## LETTER FROM ALTUS

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with adequate marketing and business development efforts. On this basis, we are therefore of the view that it is reasonable for the Group to continue to focus its investment in these business segments.

### **(iii) Alternative fund raising methods**

In addition to the Rights Issue, there are other alternatives to raise funds for the Group, such as through bank borrowings, convertible bond issue and placement of new shares to third parties. The Directors have had discussions with several banks on the possibility of obtaining credit facilities for the Group. However, the Directors informed that notwithstanding the low gearing level of the Group, as the Group is currently loss making and has yet to generate positive cashflow, these banks have not responded favourably to the Company's request. In addition, the Directors are of the view that even if such avenues are available, it will be very difficult for the Group to obtain favourable terms for any borrowings.

The Directors have also explored the issuance of debt securities such as convertible bonds. However, given the current unfavourable market sentiment towards telecommunication companies and the small market capitalisation of the Company, this is not feasible. Placement of new shares to third parties will result in a dilution of shareholdings of Shareholders and given the current weak market sentiment, the discounts of such placements will likely be steep.

We therefore agree with the Directors' view that the Rights Issue is a reasonable fund raising method to strengthen the Group's financial position and to enlarge its capital base without diluting the shareholding interests of Shareholders. The Rights Issue will allow all Shareholders (other than the Overseas Shareholders) equal opportunity to participate in the further development of the Group.

### **(iv) Subscription price of the Rights Issue**

The Company will provisionally allot one (1) Rights Share for every one (1) New Share held by Qualifying Shareholders at the close of business on the Record Date at a Subscription Price of HK\$0.12 per Rights Share. Assuming the Capital Reorganisation has become effective, the Subscription Price represents:

- (a) a discount of 40 per cent. to the adjusted closing price of approximately HK\$0.20 per New Share as quoted on the Stock Exchange on 4th October 2002, being the last trading day prior to the date of the Announcement;
- (b) a discount of 40 per cent. to the adjusted average closing price of approximately HK\$0.20 per New Share as quoted on the Stock Exchange for the last 10 trading days up to and including 4th October 2002, being the last trading day prior to the date of the Announcement;



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## LETTER FROM ALTUS

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- (c) a discount of approximately 25 per cent. to the theoretical ex-rights price of about HK\$0.16 per New Share based on the adjusted closing price on 4th October 2002, being the last trading day prior to the date of the Announcement; and
- (d) a discount of 40 per cent. to the adjusted closing price of HK\$0.20 per New Share as quoted on the Stock Exchange on the Latest Practicable Date.

### *Subscription Price comparison*

For comparison, we have reviewed the subscription prices of, to the best of our knowledge, all the rights issues of companies listed on the main board of the Stock Exchange since April 2002 as summarised below:

Company	Date of announcement <sup>(1)</sup>	Subscription price (HK\$)	Discount I <sup>(2)</sup>	Discount II <sup>(3)</sup>	Discount III <sup>(4)</sup>
UDL Holdings Limited	04-Oct-02	0.025	50.00%	50.00%	40.50%
China Star Entertainment Limited	13-Aug-02	1.250	43.20%	51.70%	20.20%
Top Glory International Holdings Limited	25-Jul-02	0.350	23.08%	26.62%	19.35%
renren Holdings Limited	19-Jul-02	0.140	44.00%	44.00%	22.20%
Easyknit Internatinal Holdings Limited	17-Jul-02	0.120	73.30%	67.10%	40.70%
China Strategic Holdings Limited	15-Jul-02	0.150	25.70%	30.60%	18.50%
Starbow Holdings Limited	27-Jun-02	0.010	95.00%	95.00%	67.90%
Styland Holdings Limited	17-Jun-02	0.098	59.84%	61.42%	27.41%
Quam Limited	11-Jun-02	0.015	50.00%	53.30%	38.50%
Peace Mark (Holdings) Ltd	06-Jun-02	0.180	66.70%	69.00%	40.00%
China United Holdings Limited	17-May-02	0.020	96.00%	96.00%	68.60%



## LETTER FROM ALTUS

Company	Date of announcement <sup>(1)</sup>	Subscription price (HK\$)	Discount I <sup>(2)</sup>	Discount II <sup>(3)</sup>	Discount III <sup>(4)</sup>
eForce Holdings Limited	14-May-02	0.127	10.60%	1.60%	7.30%
Lai Fung Holdings Limited	09-May-02	0.100	45.10%	44.40%	39.40%
Gold Wo Int'l Holdings Limited	30-Apr-02	0.016	73.30%	78.10%	64.40%
Winsan (China) Investment Group Company Limited	24-Apr-02	0.115	4.96%	4.17%	3.36%
B-Tech (Holdings) Limited	10-Apr-02	0.084	79.00%	82.90%	25.50%
AV Concept Holdings Limited	03-Apr-02	0.260	10.30%	16.70%	7.14%
<i>Maximum Discount</i>			96.00%	96.00%	68.60%
<i>Minimum Discount</i>			4.96%	1.60%	3.36%
<i>Mean</i>			50.00%	51.33%	32.41%
<i>Median</i>			50.00%	51.70%	27.41%
<b>The Company</b>	<b>10-Oct-01</b>	<b>0.0425</b>	<b>40.97%</b>	<b>47.53%</b>	<b>18.73%</b>
<b>The Company</b>	<b>07-Oct-02</b>	<b>0.12</b>	<b>40.00%</b>	<b>40.00%</b>	<b>25.00%</b>

*Notes:*

- (1) Being date of announcement of rights issue.
- (2) Discount I being discount of the subscription price to the closing price on the last trading day prior to suspension of trading pending the Press Announcement.
- (3) Discount II being discount of the subscription price to the average closing price for the last 10 trading days up to and including the last trading day.
- (4) Discount III being discount of the subscription price to the theoretical ex-entitlement price calculated based on the closing price on the last trading day.

Based on the table above, we noted that the discounts of the Rights Issue are lower than the mean and median of recent rights issues although the Discount I and Discount II of 40% and Discount III of 25% of the Rights Issue are in line with the comparable discounts of the Previous Rights Issue, which were 40.97%, 47.53% and 18.73% respectively.

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## LETTER FROM ALTUS

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### *Share price performance*

Assuming the Capital Reorganisation has become effective, the following table sets out the adjusted average daily closing price of the New Shares and the adjusted average daily trading volume of the New Shares since April 2002:

<b>Month/Period</b>	<b>Adjusted average daily closing price (HK\$)</b>	<b>Adjusted average daily trading volume (New Shares '000)</b>
April 2002	0.74	2,724
May 2002	0.80	3,139
June 2002	0.66	726
July 2002	0.51	1,051
August 2002	0.25	933
September 2002	0.22	280
October 2002	0.20	45
(up to the Latest Practicable Date)		

The adjusted trading price of the New Share have been on a declining trend, decreasing from an average of HK\$0.74 per New Share in April 2002 to HK\$0.20 as at the Latest Practicable Date. Based on the adjusted trading price of HK\$0.20 per New Share as at the Latest Practicable Date, the Subscription Price represents a discount of 40 per cent.. Independent Shareholders who wish to subscribe for the Rights Issue should however note that if the declining trend continues, the prevailing trading price of New Shares in the market might fall below the Subscription Price. In such event, it will be more appropriate for those who would like to subscribe for the Rights Shares to purchase such number of New Shares in the market than to subscribe for the Rights Issue.

#### **(v) Dilution effect of the Rights Issue on shareholdings**

The attributable equity interests in the Company of those Qualifying Shareholders who do not subscribe in full their provisional allotments under the Rights Issue will be diluted after completion of the Rights Issue up to a maximum dilution of 50 per cent.. Assuming a Shareholder holds 11,772,355 New Shares after the Capital Reorganisation but before the Rights Issue, his shareholding in the Company, based on the 235,447,100 New Shares in issue, would be 5.0 per cent.. If the Shareholder does not subscribe to the Rights Issue, his/her shareholding after the Rights Issue, based on 470,894,200 New Shares in issue, would be 2.5 per cent..

On the other hand, Qualifying Shareholders who wish to increase their shareholdings in the Company through the Rights Issue may, subject to availability, acquire additional nil-paid Rights Shares or apply for excess Rights Shares.

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## LETTER FROM ALTUS

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### (vi) Financial effects of the Rights Issue

#### *Net assets*

The table below sets out the proforma consolidated net assets of the Group, illustrating the effects of the Rights Issue:

*HK\$'million*

Unaudited consolidated net assets of the Group as at 30th June, 2002	241.50
Add: Proceeds from the Rights Issue after expenses	25.75
Pro forma unaudited adjusted consolidated net assets of the Group immediately after the Rights Issue	267.25
Unaudited adjusted consolidated net assets per New Share of the Group immediately prior to the completion of the Rights Issue based on 235,447,100 New Shares of the Group in issue as at 30th June, 2002	HK\$1.03
Pro forma unaudited adjusted consolidated net assets per New Share of the Group immediately following the completion of the Rights Issue based on 470,894,200 New Shares of the Group in issue upon completion	HK\$0.57

The Group's net assets per New Share is expected to decline substantially from HK\$1.03 per New Share to HK\$0.57 per New Share upon completion of the Rights Issue. This decline is due to the fact that the Subscription Price of HK\$0.12 per New Share is significantly lower than the Group's net assets per New Share of HK\$1.03 as at 30th June, 2002.

#### *Gearing ratio*

As at 30th June 2002, the Group had outstanding borrowings totalling approximately HK\$10.7 million comprising obligations under finance lease, resulting in a gearing ratio of about 4.4 per cent.. Upon completion of the Rights Issue, the gearing ratio will decrease to approximately 4.0 per cent..

The Rights Issue will improve the net asset position as well as lower the gearing ratio of the Group. There will also be improvement to the Group's working capital position after the Rights Issue. The Rights Issue will provide permanent capital to the Group and allow the Group to further expand its telecommunication business without having to incur debts.

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## LETTER FROM ALTUS

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### *Cash position*

The Group's cash balance decreased from HK\$111.3 million as at 31st December, 2001 (which included proceeds from the Previous Rights Issue) to HK\$33.1 million as at 30th June, 2002. The decline in cash is due mainly to (a) additional costs incurred in respect of product development and operational set-up of ZONE US; and (b) ZONE US having not reached the economic scale which generate net cash inflow. The operating cashflow of ZONE HK and ZONE SG, although positive, was not sufficient to meet the cashflow requirements of the Group as a whole, especially the requirements of ZONE US.

Notwithstanding, the Directors are of the opinion that in the absence of unforeseeable circumstances and after taking into account the net proceeds for the Rights Issue, the Group's internal resources and available banking and other borrowing facilities, the Group has sufficient working capital for its present requirements.

Given that ZONE HK and ZONE SG are producing positive cashflow and that substantial parts of the capital expenditure of ZONE US have already been incurred, the net operating cashflow of the Group, although negative, should improve. On this basis, we are of the view that the Directors' view on the Group's working capital sufficiency above is reasonable.

### **(vii) Underwriting arrangements and the Whitewash Waiver**

The Rights Issue, other than the 45,525,782 Rights Shares provisionally allotted to Mr. Siemens, Mr. Saran and Mr. Hicks, is fully underwritten by the Underwriter, which is a company owned as to  $\frac{1}{3}$  by Mr. Siemens,  $\frac{1}{3}$  by Mr. Hicks and  $\frac{1}{3}$  by Mr. Saran. Mr. Siemens, Mr. Saran and Mr. Hicks, who in aggregate are beneficially interested in 910,515,642 Existing Shares (or 45,525,782 New Shares upon completion of the Capital Reorganisation) representing approximately 19.34 per cent. of the existing issued share capital of the Company, have given an irrevocable undertakings to accept and procure acceptance of their entitlement of 45,525,782 Rights Shares.

The Directors informed that the Company had approached several securities firms to discuss on the possibility of underwriting the Rights Issue. Nevertheless, due to the weak and uncertain market conditions, the Company was not able to engage a suitable underwriter for the Rights Issue. Given the foreseeable need of funds for the Group's on-going working capital requirements in the telecommunication businesses, the Directors therefore approached Mr. Siemens, Mr. Hicks and Mr. Saran, who subsequently consented, to act as the underwriter of the Rights Issue.

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## LETTER FROM ALTUS

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The size of the Rights Issue is subject to the number of Share Options exercised as described in the Letter from the Board. After the Rights Issue, assuming no Share Options are duly exercised before the Record Date, in the event that the Underwriter takes up its underwriting commitment in full, the Underwriter's shareholding in the Company will be approximately 40.33 per cent. and when aggregated with parties acting in concert with it (including Mr. Siemens, Mr. Hicks and Mr. Saran), their shareholdings in the Company will be increased to a maximum of 59.67 per cent..

Under Rule 26 of the Takeovers Code, Interventure, its associates and parties acting in concert with it would be obliged to make a mandatory general offer for all the securities of the Company (other than those already owned by them) once they become holders of Shares of 30 per cent. or more as a result of them applying for excess Rights Shares under the Rights Issue or underwriting of Rights Shares as described above. As Interventure does not intend to make such a general offer, it has made a formal application to the SFC for the Whitewash Waiver. The Whitewash Waiver, if granted by the Executive, will be subject to approval by the Independent Shareholders by way of a poll at the SGM.

In this regard, if the Whitewash Waiver is not approved by the Independent Shareholders, the Rights Issue will not be able to proceed as there will be no underwriter and a condition to the Rights Issue is not fulfilled. In such event, the Group will not have the opportunity to enhance its capital base and financial position and we consider that this may have a negative impact on the Group's expansion plans and future prospects.

When considering the effects of the Whitewash Waiver, we noted that by approving the Whitewash Waiver, Independent Shareholders will allow Interventure, its associates and parties acting in concert with it to possibly increase their shareholdings in the Company above 30 per cent. without the obligation to make a general offer. **Independent Shareholders should further note that if, upon completion of the Rights Issue, Interventure and parties acting in concert with it were to have an aggregate shareholding in the Company of more than 50 per cent., Interventure and parties acting in concert with it would be able to increase their shareholding in the Company without incurring any further obligation to make a general offer under Rule 26 of the Takeovers Code.** Nevertheless, we consider that such a possibility arises by virtue of Mr. Siemens, Mr. Hicks and Mr. Saran's intention to facilitate the Rights Issue and their continued support for the Group.

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## LETTER FROM ALTUS

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### CONCLUSIONS AND RECOMMENDATIONS

Having considered the above principal factors for the Rights Issue, notwithstanding the decrease in net assets per New Share after the Rights Issue and the discounts of the Rights Issue being lower than those of recent rights issues, the Rights Issue is important for the business development and operations of the Group. We are thus of the view that the Rights Issue is fair and reasonable so far as the Independent Shareholders are concerned and would advise the Independent Director to recommend to the Independent Shareholders to vote in favour of the resolution to approve the Rights Issue to be proposed at the SGM.

The Rights Issue is conditional upon the approval of the Whitewash Waiver. The Rights Issue will not proceed if the Whitewash Waiver is not approved. Having taken into account our recommendation on the Rights Issue above, we consider it to be fair and reasonable for the Independent Shareholders to approve the Whitewash Waiver. Accordingly, we would advise the Independent Director to recommend to the Independent Shareholders to vote in favour of the resolution to approve the Whitewash Waiver to be proposed at the SGM.

Yours faithfully,  
For and on behalf of  
**Altus Capital Limited**

**Arnold Ip**  
*Director*

## 1. ORDINARY SHARE CAPITAL

The authorised and issued ordinary share capital of the Company as at the Latest Practicable Date were and immediately following completion of the Rights Issue (assuming the Rights Issue becoming unconditional) will be as follows:

<i>Authorised</i>		<i>HK\$</i>
<u>6,000,000,000</u>	Existing Shares as at the Latest Practicable Date	<u>120,000,000</u>
<u>12,000,000,000</u>	New Shares immediately following completion of the Capital Reorganisation	<u>120,000,000</u>
<i>Issued and fully paid</i>		
4,699,262,008	Existing Shares as at 31 December 2001	93,985,240
<u>9,680,000</u>	Existing Shares converted from preference shares on 22 September 2002	<u>193,600</u>
<u>4,708,942,008</u>	Existing Shares prior to the Capital Reorganisation	<u>94,178,840</u>
235,447,100	New Shares upon completion of the Capital Reorganisation	2,354,471
<u>235,447,100</u>	Rights Shares to be issued assuming no exercise of Share Options prior to the Record Date	<u>2,354,471</u>
<u>470,894,200</u>	New Shares immediately following the Rights Issue	<u>4,708,942</u>

All ordinary shares of the Company in issue rank *pari passu* in all respects with each other, including in particular as to dividends, voting rights and capital.

The Rights Shares, when fully-paid, and the ordinary shares of the Company to be issued on exercise of Share Options will rank *pari passu* in all respects with the then existing ordinary shares in issue, including as to the right to receive all future dividends and other distributions which may be declared, made or paid after the date of issue of the Rights Shares and the ordinary shares issued as a result of exercise of the Share Options.

The ordinary shares of the Company are listed on the Stock Exchange and none of the securities of the Company are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

### **Share Options**

On 25 October 1999, the Company approved a share option scheme under which the Directors may, at their discretion, invite any full-time employees and/or executive directors of the Group to take up options to subscribe for ordinary shares at any time until 24 October 2009 (the “Share Option Scheme”). The maximum number of shares in which options can be granted may not exceed 10% of the issued share capital of the Company, excluding any ordinary shares issued on the exercise of the Share Options from time to time.

The Share Option Scheme was subsequently terminated by the Company in a special general meeting held on 28 June 2002 and a new share option scheme was adopted on the same date. As at the Latest Practicable Date, no share option was granted under the new scheme. The Share Options outstanding as at the Latest Practicable Date carry rights to subscribe in cash for new ordinary shares at initial subscription prices of between HK\$0.08 and HK\$0.76, subject to adjustment, and can be exercised during various exercise periods with expiry up to and including 24 October 2009. The exercise in full of such options (excluding those held by Mr. Siemens) would, under the present shareholding structure of the Company, result in the issue of 101,658,509 Existing Shares (equivalent to 5,082,925 New Shares).

Subject to the completion of the Rights Issue, the subscription price of and/or the number of ordinary shares comprised in the outstanding Share Options will be subject to adjustments. Such adjustments will be certified by the auditors of the Company.

Save as disclosed above, the Company did not have any other options, warrants and other convertible securities in issue as at the Latest Practicable Date.



## 2. THREE YEAR FINANCIAL RESULTS

Set out below is a summary of the audited consolidated income statement for each of the three years ended 31 December 2001 as extracted from the annual reports of the Group for the respective years.

	<b>Results of the Group</b>		
	<b>for the year ended 31 December</b>		
	<b>2001</b>	<b>2000</b>	<b>1999</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Turnover</b>			
Continuing operations	263,896	76,652	44,210
Discontinued operations	–	23,473	1,035
	<u>263,896</u>	<u>100,125</u>	<u>45,245</u>
<b>(Loss)/Profit from operations</b>	(681,273)	5,105	(75,170)
<b>Share of results of associates</b>	(752)	(1,110)	–
	<u>(682,025)</u>	<u>3,995</u>	<u>(75,170)</u>
<b>(Loss)/Profit before taxation</b>	(682,025)	3,995	(75,170)
<b>Taxation</b>	–	(739)	(739)
	<u>(682,025)</u>	<u>3,256</u>	<u>(75,909)</u>
<b>(Loss)/Profit from ordinary activities after taxation</b>	(682,025)	3,256	(75,909)
<b>Minority interests</b>	710	(1,954)	(2,499)
	<u>710</u>	<u>(1,954)</u>	<u>(2,499)</u>
<b>Net (loss)/profit attributable to shareholders</b>	<u>(681,315)</u>	<u>1,302</u>	<u>(78,408)</u>
<b>(Loss)/Earnings per share</b>			
Basic	<u>(35.12) cents</u>	<u>0.08 cent</u>	<u>(9.98) cents</u>
Diluted	<u>N/A</u>	<u>0.07 cent</u>	<u>N/A</u>

*Note:* The Company did not declare any dividends and did not have any extraordinary items for the three years ended 31 December 2001.

### 3. SUMMARY OF THE AUDITED FINANCIAL INFORMATION OF THE GROUP FOR THE TWO YEARS ENDED 31 DECEMBER 2001

Set out below are the consolidated income statement, consolidated statement of recognised gains and losses, balance sheets and consolidated cash flow statement for each of the two years ended 31 December 2001 of the Group together with the relevant notes as extracted from the audited financial statements of the Company for the year ended 31 December 2001.

#### Consolidated Income Statement

*For the years ended 31 December 2000 and 2001*

		<b>2001</b>	<b>2000</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Turnover</b>	3	263,896	100,125
Cost of sales		(214,038)	(72,570)
Gross profit		49,858	27,555
Other revenue	3	4,216	28,861
Other net income	4	–	99,908
Distribution costs		(22,370)	(6,086)
Business promotion and marketing expenses		(31,166)	(43,623)
Operating and administrative expenses		(176,615)	(86,180)
Other operating expenses		(76,688)	(6,286)
<b>(Loss)/Profit from operations</b>		<b>(252,765)</b>	<b>14,149</b>
Finance costs	5	(1,216)	(140)
Intangible assets and goodwill written off	5 & 12	(114,795)	–
Provision for diminution in value of investment securities		(72,021)	(8,904)
Unrealised holding loss on other investments		(240,476)	–
Share of results of associates		(752)	(1,110)
<b>(Loss)/Profit from ordinary activities before taxation</b>	5	<b>(682,025)</b>	<b>3,995</b>
Taxation	7	–	(739)
<b>(Loss)/Profit from ordinary activities after taxation</b>		<b>(682,025)</b>	<b>3,256</b>
Minority interests		710	(1,954)
<b>Net (loss)/profit attributable to shareholders</b>	8 & 23	<b>(681,315)</b>	<b>1,302</b>
<b>(Loss)/Earnings per share</b>	9		
Basic		(35.12) cents	0.08 cent
Diluted		N/A	0.07 cent

*Note:* The Company did not declare any dividend and did not have any extraordinary items for the two year ended 31 December 2001.

**Consolidated Statement of Recognised Gains and Losses***For the years ended 31 December 2000 and 2001*

	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Exchange difference on translation of foreign subsidiaries	381	(388)
Exchange reserve released on disposal of subsidiaries	–	(1,117)
Goodwill previously eliminated directly against reserves written off to income statement	69,335	–
Other capital reserve and goodwill on consolidation released on disposal of subsidiaries	–	1,647
Net (loss)/profit for the year attributable to shareholders	<u>(681,315)</u>	<u>1,302</u>
<b>Total recognised (losses)/gains</b>	<b>(611,599)</b>	<b>1,444</b>
Goodwill on acquisition of subsidiaries eliminated directly against reserves	<u>–</u>	<u>(7,134)</u>
	<u><b>(611,599)</b></u>	<u><b>(5,690)</b></u>

**Consolidated Balance Sheet**  
*At 31 December 2000 and 2001*

	<i>Note</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	215,428	91,049
Intangible assets	12	–	42,366
Interests in associates	13	4,838	12,687
Investment securities	14	31,434	302,381
		<u>251,700</u>	<u>448,483</u>
<b>Current assets</b>			
Other investments	15	47,737	–
Properties held for sale		–	3,734
Inventories		–	978
Trade and other receivables	16	54,230	73,791
Pledged deposits	17	7,107	68,680
Cash and cash equivalents	18	111,349	344,308
		<u>220,423</u>	<u>491,491</u>
<b>Current liabilities</b>			
Trade and other payables	19	98,556	97,657
Current portion of obligations under finance leases	20	11,372	582
		<u>109,928</u>	<u>98,239</u>
<b>Net current assets</b>		<u>110,495</u>	<u>393,252</u>
<b>Total assets less current liabilities</b>		362,195	841,735
<b>Long-term liabilities</b>			
Obligations under finance leases	20	4,885	–
<b>Minority interests</b>		<u>–</u>	<u>119</u>
<b>NET ASSETS</b>		<u><u>357,310</u></u>	<u><u>841,616</u></u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	21	103,665	40,879
Reserves	23	253,645	800,737
		<u><u>357,310</u></u>	<u><u>841,616</u></u>

**Balance Sheet***At 31 December 2000 and 2001*

	<i>Note</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	1,115	1,184
Interests in subsidiaries	11	515,300	537,034
Interests in associates	13	6,806	9,215
		<u>523,221</u>	<u>547,433</u>
<b>Current assets</b>			
Trade and other receivables	16	843	14,350
Pledged deposits	17	3,007	68,680
Cash and cash equivalents	18	90,577	319,439
		<u>94,427</u>	<u>402,469</u>
<b>Current liabilities</b>			
Trade and other payables	19	7,337	7,065
		<u>87,090</u>	<u>395,404</u>
<b>Net current assets</b>			
		<u>610,311</u>	<u>942,837</u>
<b>NET ASSETS</b>			
<b>CAPITAL AND RESERVES</b>			
Issued capital	21	103,665	40,879
Reserves	23	506,646	901,958
		<u>610,311</u>	<u>942,837</u>

**Consolidated Cash Flow Statement***For the years ended 31 December 2000 and 2001*

	<i>Note</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
<b>Net cash outflow from operating activities</b>	24	(191,292)	(86,613)
<b>Returns on investments and servicing of finance</b>			
Interest received		4,216	28,795
Income from unlisted investments		–	66
Interest on obligations under finance leases		(1,216)	(140)
<b>Net cash inflow from returns on investments and servicing of finance</b>		3,000	28,721
<b>Taxation</b>			
Overseas tax paid		–	(212)
<b>Investing activities</b>			
Purchase of property, plant and equipment		(134,564)	(101,597)
Purchase of intangible assets		(4,313)	(42,748)
Purchase of investment securities and other investments		(131,294)	(206,946)
Proceeds from disposal of property, plant and equipment		1,181	1,235
Proceeds from disposal of other investments		23,200	–
Net repayment/(advances) from/to associates		7,195	(12,463)
Purchase of subsidiaries (net of cash and cash equivalents acquired)	26	(1,603)	(3,030)
Disposal of subsidiaries (net of cash and cash equivalents disposed)	27	15,000	(5,068)
<b>Net cash outflow from investing activities</b>		(225,198)	(370,617)
<b>Net cash outflow before financing activities</b>		(413,490)	(428,721)

**Consolidated Cash Flow Statement** *(continued)**For the years ended 31 December 2000 and 2001*

	<i>Note</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
<b>Financing</b>	28		
Issue of ordinary shares		127,293	742,046
Capital contributed by minority shareholders		591	–
Repayment of obligations under finance leases		(8,926)	(212)
<b>Net cash inflow from financing</b>		<u>118,958</u>	<u>741,834</u>
<b>(Decrease)/Increase in cash and cash equivalents</b>		(294,532)	313,113
<b>Cash and cash equivalents at 1 January</b>		<u>412,988</u>	<u>99,875</u>
<b>Cash and cash equivalents at 31 December</b>		<u><u>118,456</u></u>	<u><u>412,988</u></u>
<b>Analysis of the balances of cash and cash equivalents</b>			
Pledged deposits		7,107	68,680
Fixed deposits		4,000	317,762
Bank balances and cash		<u>107,349</u>	<u>26,546</u>
		<u><u>118,456</u></u>	<u><u>412,988</u></u>

**Notes to the Financial Statements***For the year ended 31 December 2001***1. GENERAL**

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”).

**2. PRINCIPAL ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice (“SSAP”) and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below.

**Basis of preparation**

The measurement basis used in the preparation of the financial statements is historical cost, as modified for revaluation of certain investments in securities as explained in the accounting policies set out below.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2001.

The results of subsidiaries acquired or disposed of during the year are accounted for from the effective dates of acquisition or up to the effective dates of disposal respectively.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

**Goodwill on consolidation**

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group’s share of the fair value of the identifiable assets and liabilities acquired.

In respect of subsidiaries acquired before 1 January 2001, the related positive goodwill has been eliminated against reserves and, as permitted by the SSAP 30, has not been restated. Provision for impairment losses has been made against such goodwill in accordance with SSAP 31. For subsidiaries acquired on or after 1 January 2001, the related positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is carried as an asset in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.

In respect of acquisitions of associates, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses is included in the carrying amount of the interest in associates.

Negative goodwill arising on acquisitions of subsidiaries and associates represents the excess of the Group’s share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. In respect of subsidiaries acquired before 1 January 2001, the related negative goodwill has been credited to capital reserve. For subsidiaries acquired on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill up to the fair values of the non-monetary assets acquired, is recognised in the consolidated



income statement over the weighted average useful life of depreciable non-monetary assets. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

On disposal of a subsidiary or an associate during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

**Subsidiaries**

A subsidiary is an enterprise, in which 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 provision.

**Associates**

An associate is an enterprise, in which the Group or the Company has significant influence and which is neither a subsidiary nor a joint venture of the Group or the Company. In the Company’s balance sheet, investments in associates are stated at cost less provision, if necessary.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the income statement.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful life from the date on which they become fully operational and after taking into account their estimated residual values, using the straight-line method at the following rates per annum:

Leasehold improvement	Over the remaining lease term
Office equipment, furniture and fittings	10% – 33%
Machinery and equipment	10% – 33%

**Intangible assets**

Intangible assets comprise business assets acquired and goodwill arising on business combination (other than acquisition of a subsidiary or an associate) and are amortised over their estimated useful life. Business assets include mainly business plans, business contracts, copyrights, other intellectual property rights and customers list.

**Investments in securities**

Investment securities held for an identified long-term purpose are stated at cost and subject to impairment review at each reporting date to reflect any diminution in their value, which is expected to be other than temporary. The amount of provisions is recognised in the income statement in the period in which the decline occurs.

Securities not classified as investment securities are classified as other investments, which are stated at fair value in the balance sheet. The unrealised holding gains and losses for other investments are included in the income statement.

The gain or loss on disposal of investment securities and other investments is the difference between net sales proceeds and the carrying amount of the securities and is accounted for in the period in which the disposal occurs.

**Impairment loss**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use, in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so 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 or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the 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 telecommunications services provided to customers is recognised when the services are rendered.

Income in respect of corporate management services is recognised when the event management services are rendered.

Other income includes internet security solution services income, sale of computer hardware and software and insurance and management consulting income. Internet security solution services income and insurance and management consulting income are recognised in the period when the services are rendered. Sale of computer hardware and software is recognised when goods are delivered and title has passed.

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

Investment income is recognised when the Group's right to receive payment is established.

**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 their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

**Operating leases**

Rentals payable under operating leases are recognised as an expense on the straight-line basis over the lease terms. Lease incentives received are recognised in the income statement as an integral part of the net consideration agreed for the use of the leased asset. Contingent rentals are recognised as expenses in the accounting period in which they are incurred.

**Foreign currencies**

Transactions in foreign currencies are translated at the approximate rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the approximate rates of exchange ruling at that date. Translation differences are included in the income statement.

On consolidation, the financial statements of overseas subsidiaries denominated in currencies other than Hong Kong dollars, are translated at the approximate rates of exchange ruling at the balance sheet date. All exchange differences arising on consolidation are dealt with in the exchange reserve.

**Taxation**

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

**Cash equivalents**

For the purpose of consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For balance sheet classification, cash equivalents represent assets similar in nature to cash which are not restricted as to use.

**Related party**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

**3. TURNOVER AND REVENUE**

Turnover and revenue recognised by category are analysed as follows:

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Turnover</b>		
Telecommunication services income	224,162	63,740
Corporate management services income	34,912	1,284
Sale of animated films	–	23,473
Others	4,822	11,628
	<u>263,896</u>	<u>100,125</u>
<b>Other revenue</b>		
Interest income	4,216	28,795
Income from unlisted investments	–	66
	<u>4,216</u>	<u>28,861</u>
<b>Revenue</b>	<u>268,112</u>	<u>128,986</u>

## 4. OTHER NET INCOME

	Group	
	2001	2000
	HK\$'000	HK\$'000
Gain on disposal of investment securities	–	76,051
Gain on disposal of discontinued operations	–	23,210
Gain on disposal of subsidiaries	–	311
Others	–	336
	<u>–</u>	<u>99,908</u>

## 5. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	Group	
	2001	2000
	HK\$'000	HK\$'000
(a) Finance costs		
Finance charges on obligations under finance leases	<u>1,216</u>	<u>140</u>
(b) Other items		
Amortisation of intangible assets included in		
other operating expenses	2,471	1,163
Auditors' remuneration	1,182	1,000
Bad debts written off	27,237	42
Provision for doubtful debts	6,170	1,100
Cost of inventories and services provided	214,038	72,570
Depreciation of property, plant and equipment:		
Owned assets	29,937	10,508
Assets held under finance leases	2,197	–
Intangible assets and goodwill written off:		
Intangible assets	44,208	–
Goodwill	70,587	–
Loss on disposal of other investments	3,807	–
Loss on disposal of property, plant and equipment	1,471	152
Loss on disposal of properties held for sale	2,111	–
Operating lease charges on premises	12,612	2,685
Staff costs	<u>122,423</u>	<u>46,228</u>

## 6. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

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

	2001	2000
	HK\$'000	HK\$'000
Fees	–	–
Salaries, other emoluments and other benefits in kind	<u>4,211</u>	<u>3,960</u>
	<u>4,211</u>	<u>3,960</u>

No fees or emoluments were paid to the independent non-executive directors during the year (2000: Nil).

In additions to the above emoluments, certain directors were granted share options under the Company's employee share option scheme. Details of these benefits in kind are disclosed under the paragraph "Directors' Interests in Securities" in the Directors' Report.

In the absence of a ready market for the options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted to the respective directors.

The remuneration of directors was within the following bands:

<i>HK\$</i>	Number of directors	
	2001	2000
Nil	12	6
1,500,001 – 2,000,000	1	1
2,000,001 – 2,500,000	1	1
	<u>14</u>	<u>8</u>

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

#### Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2000: two) were directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other three (2000: three) individuals were as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Salaries and other emoluments	4,981	3,370
Severance payment	325	–
	<u>5,306</u>	<u>3,370</u>

<i>HK\$</i>	Number of individuals	
	2001	2000
Nil – 1,000,000	–	1
1,000,001 – 1,500,000	–	2
1,500,001 – 2,000,000	3	–
	<u>3</u>	<u>3</u>

## 7. TAXATION

Hong Kong Profits Tax has not been provided as the Group incurred a loss for taxation purposes for the year.

Taxation charge of HK\$739,000 for the year ended 31 December 2000 represented Peoples' Republic of China income tax calculated at the prevailing rate.

The major components of deferred taxation not (credited)/provided for the year are as follows:

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Excess of tax allowances over depreciation	504	1,830
Tax losses	(60,412)	(17,952)
	<u>(59,908)</u>	<u>(16,122)</u>

**8. NET (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

The net (loss)/profit attributable to shareholders includes a loss of the Company amounted to HK\$459,819,000 (2000: profit of HK\$31,713,000) which has been dealt with in the financial statements of the Company.

**9. (LOSS)/EARNINGS PER SHARE**

The calculation of basic loss per share for the year ended 31 December 2001 was based on the consolidated loss attributable to shareholders of HK\$681,315,000 (2000: profit of HK\$1,302,000) and on the weighted average number of 1,940,200,731 (2000: 1,731,573,250) ordinary shares in issue during the year.

The fully diluted loss per share for 2001 is not shown because the potential ordinary shares would decrease the loss per share and would be regarded as anti-dilutive.

The calculation of diluted earnings per share for 2000 was based on the consolidated profit attributable to shareholders of approximately HK\$1,302,000 and the diluted weighted average number of 1,825,717,799 ordinary shares. For the purposes of calculating the diluted weighted average number of shares, the dilutive potential ordinary shares resulting from the outstanding share options and convertible preference shares were deemed to be issued as if all outstanding options and convertible preference shares have been exercised on the date when the options and convertible preference shares were granted.

The comparative amount of the earnings per share and diluted earnings per share have been adjusted for the effect of the rights issue of 3,139,294,672 shares of the Company during the year.

**10. PROPERTY, PLANT AND EQUIPMENT**

<b>Group</b>	<b>Machinery and equipment <i>HK\$'000</i></b>	<b>Leasehold improvement <i>HK\$'000</i></b>	<b>Office equipment, furniture and fittings <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
<b>Cost</b>				
At 1 January 2001	84,397	1,326	15,253	100,976
Additions	148,723	746	9,696	159,165
Disposals	(1,127)	(1,134)	(2,740)	(5,001)
<b>At 31 December 2001</b>	<b>231,993</b>	<b>938</b>	<b>22,209</b>	<b>255,140</b>
<b>Accumulated depreciation</b>				
At 1 January 2001	7,092	302	2,533	9,927
Charge for the year	25,386	267	6,481	32,134
Disposals	(844)	(337)	(1,168)	(2,349)
<b>At 31 December 2001</b>	<b>31,634</b>	<b>232</b>	<b>7,846</b>	<b>39,712</b>
<b>Net book value</b>				
<b>At 31 December 2001</b>	<b>200,359</b>	<b>706</b>	<b>14,363</b>	<b>215,428</b>
At 31 December 2000	77,305	1,024	12,720	91,049

## APPENDIX I

## FINANCIAL INFORMATION ON THE GROUP

The net book value of the Group's property, plant and equipment includes an amount of HK\$22,262,000 (2000: HK\$794,000) in respect of assets held under finance leases.

Company	Leasehold improvement <i>HK\$'000</i>	Office equipment, furniture and fittings <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost</b>			
At 1 January 2001	11	1,625	1,636
Additions	–	534	534
Disposals	–	(130)	(130)
<b>At 31 December 2001</b>	<b>11</b>	<b>2,029</b>	<b>2,040</b>
<b>Accumulated depreciation</b>			
At 1 January 2001	4	448	452
Charge for the year	7	510	517
Disposals	–	(44)	(44)
<b>At 31 December 2001</b>	<b>11</b>	<b>914</b>	<b>925</b>
<b>Net book value</b>			
<b>At 31 December 2001</b>	<b>–</b>	<b>1,115</b>	<b>1,115</b>
At 31 December 2000	7	1,177	1,184

### 11. INTERESTS IN SUBSIDIARIES

	Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Unlisted shares, at cost	–	–
Due from subsidiaries	816,300	537,034
Less: Provision	(301,000)	–
	<b>515,300</b>	<b>537,034</b>

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 Group Inc.	Cayman Islands	US\$100	–	100%	Investment holding
ZONE Global Limited	British Virgin Islands	US\$1	–	100%	Investment holding
ZONE Limited	Hong Kong	HK\$2	–	100%	Provision of telecommunication services

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid up share capital	Percentage of share capital held by the Company		Principal activities
			<i>Directly</i>	<i>Indirectly</i>	
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
ZONE Telecom, Inc.	United States of America	US\$10	–	100%	Provision of telecommunication services
E-Force Limited	Hong Kong	HK\$2	–	100%	Asset holding
EventClicks Global Limited	British Virgin Islands	US\$1,075,269	–	93%	Investment holding
EventClicks Limited	Hong Kong	HK\$500,000	–	93%	Provision of corporate management services
EventClicks Singapore Pte Limited	Singapore	S\$2	–	93%	Provision of corporate management services
speedinsure Global Limited	British Virgin Islands	US\$10,000	–	70%	Investment holding
speedinsure.com Limited	Hong Kong	HK\$10,000	–	70%	Provision of sales and fulfillment solution
speedinsure Singapore Pte Ltd	Singapore	S\$2	–	70%	Provision of sales and fulfillment solution
Cyber Insurance Brokers Limited	Hong Kong	HK\$5,000,000	–	70%	Insurance brokerage
magictel.com Limited	Hong Kong	HK\$1,000	–	100%	Provision of telecommunication services
NETdefence Company Limited	Hong Kong	HK\$10,000	–	51%	Provision of internet security solution
China Portal Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Crystal Kingdom Limited	British Virgin Islands	US\$1	100%	–	Investment holding



Name of subsidiary	Place of incorporation/ operation	Issued and fully paid up share capital	Percentage of share capital held by the Company		Principal activities
			<i>Directly</i>	<i>Indirectly</i>	
e-Kong Services Limited	British Virgin Islands	US\$1	–	100%	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
e-Kong Ventures Limited	British Virgin Islands	US\$1	–	100%	Investment holding

The above summary includes those subsidiaries of the Company 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.

## 12. INTANGIBLE ASSETS

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>At 1 January</b>		
Opening carrying amount	42,366	781
Additions	4,313	42,748
Amortisation charge	(2,471)	(1,163)
Write-off	(44,208)	–
	<hr/>	<hr/>
<b>Closing carrying amount</b>		
At 31 December	–	42,366
	<hr/>	<hr/>
<b>At 31 December</b>		
Cost	–	43,529
Accumulated amortisation	–	(1,163)
	<hr/>	<hr/>
Closing carrying amount	–	42,366
	<hr/>	<hr/>

The write-off of the intangible assets during the year related to business assets and goodwill on business combination in respect of the telecommunication business.

In view of the depressed market for information technology, Internet related businesses and global telecommunication business, the management considered that impairment losses on the intangible assets had occurred and should be recognised during the year.

## 13. INTERESTS IN ASSOCIATES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Share of net assets	(1,911)	(1,257)	–	–
Due from associates	6,749	13,944	6,806	9,215
	<u>4,838</u>	<u>12,687</u>	<u>6,806</u>	<u>9,215</u>

Details of associates, all of which are unlisted corporate entities, at the balance sheet date are as follow:

Name of associate	Place of incorporation/ operation	Issued and fully paid up share capital	Percentage of share capital held by the Company		Principal activities
			Directly	Indirectly	
CIB (Holdings) Limited	British Virgin Islands	US\$1,000	–	28%	Investment holding
Cyber Insurance Brokers(s) Pte Ltd.	Singapore	S\$450,000	–	28%	Insurance brokerage

## 14. INVESTMENT SECURITIES

	Group	
	2001 HK\$'000	2000 HK\$'000
At cost less provision:		
Equity securities, unlisted	31,434	133,456
Equity securities, listed outside Hong Kong	–	168,925
	<u>31,434</u>	<u>302,381</u>
Market value of listed securities	–	169,642

## 15. OTHER INVESTMENTS

	Group	
	2001 HK\$'000	2000 HK\$'000
At fair value:		
Equity securities at market value, listed outside Hong Kong	16,560	–
Securities portfolio, unlisted	31,177	–
	<u>47,737</u>	<u>–</u>

The securities portfolio is made up of listed securities.

**16. TRADE AND OTHER RECEIVABLES**

	<b>Group</b>		<b>Company</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Trade receivables</b>	37,943	36,368	–	–
<b>Other receivables</b>				
Deposits, prepayments and other debtors	16,287	37,423	843	14,350
	<u>54,230</u>	<u>73,791</u>	<u>843</u>	<u>14,350</u>

The Group's credit terms on credit 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.

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	29,048	23,735
1 to 3 months	5,922	10,736
More than 3 months but less than 12 months	2,973	1,897
	<u>37,943</u>	<u>36,368</u>

**17. PLEDGED DEPOSITS**

At the balance sheet date, the Group and the Company had pledged deposits amounting HK\$7,107,000 (2000: HK\$68,680,000) and HK\$3,007,000 (2000: HK\$68,680,000) respectively to banks for guarantee.

**18. CASH AND CASH EQUIVALENTS**

	<b>Group</b>		<b>Company</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank balances and cash	107,349	26,546	90,577	6,677
Time deposits	4,000	317,762	–	312,762
	<u>111,349</u>	<u>344,308</u>	<u>90,577</u>	<u>319,439</u>

**19. TRADE AND OTHER PAYABLES**

	<b>Group</b>		<b>Company</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Trade payables</b>	42,041	17,783	–	–
<b>Other payables</b>				
Accrued charges and other creditors	56,515	78,378	2,816	477
Due to subsidiaries	–	–	4,521	5,092
Due to an associate	–	1,496	–	1,496
	<u>98,556</u>	<u>97,657</u>	<u>7,337</u>	<u>7,065</u>

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

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	12,617	7,244
1 to 3 months	16,580	8,525
More than 3 months but less than 12 months	12,844	2,014
	<u>42,041</u>	<u>17,783</u>

## 20. OBLIGATIONS UNDER FINANCE LEASES

The obligations under finance leases are repayable as follows:

	<b>Group</b>			
	<b>Minimum lease payments</b>		<b>Present value of minimum lease payments</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	12,555	617	11,372	582
After 1 year but within 2 years	5,123	–	4,885	–
	<u>17,678</u>	<u>617</u>	<u>16,257</u>	<u>582</u>
Future finance charges	(1,421)	(35)	–	–
Present value of lease obligations	<u>16,257</u>	<u>582</u>	<u>16,257</u>	<u>582</u>

## 21. ISSUED CAPITAL

	<b>2001</b>		<b>2000</b>	
	<b>Number of shares</b>	<b>Amount</b>	<b>Number of shares</b>	<b>Amount</b>
		<i>HK\$'000</i>		<i>HK\$'000</i>
<b>Authorised</b>				
Preference shares of HK\$1 each				
At 1 January and at 31 December	288,929,402	288,929	288,929,402	288,929
Ordinary shares of HK\$0.02 each				
At 1 January	3,000,000,000	60,000	1,500,000,000	30,000
Increase of ordinary shares	3,000,000,000	60,000	1,500,000,000	30,000
At 31 December	<u>6,000,000,000</u>	<u>120,000</u>	<u>3,000,000,000</u>	<u>60,000</u>
<b>Total</b>		<u>408,929</u>		<u>348,929</u>

		2001		2000
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Issued and fully paid				
Preference shares of HK\$1 each				
At 1 January	9,680,000	9,680	170,970,968	170,971
Converted to ordinary shares	—	—	(161,290,968)	(161,291)
At 31 December	9,680,000	9,680	9,680,000	9,680
Ordinary shares of HK\$0.02 each				
At 1 January	1,559,959,336	31,199	1,159,449,380	23,189
Issue of ordinary shares	3,139,294,672	62,786	230,000,000	4,600
Converted from				
preference shares	—	—	161,290,968	3,226
Exercise of share options	8,000	—	9,218,988	184
At 31 December	4,699,262,008	93,985	1,559,959,336	31,199
Total		103,665		40,879

- (a) By an ordinary resolution passed at a special general meeting on 23 November 2001, the authorised ordinary share capital of the Company was increased to HK\$120,000,000 by the creation of 3,000,000,000 additional ordinary shares of HK\$0.02 each.

- (b) In April 2001, share options were exercised to subscribe for 8,000 ordinary shares of HK\$0.02 each in the Company at a consideration of HK\$3,920.

In December 2001, 3,139,294,672 new ordinary shares of HK\$0.02 each were issued by way of a rights issue on the basis of two rights shares for every one existing ordinary share, and two rights shares for every one convertible preference share held, at an issue price of HK\$0.0425 per share (the “Rights Issue”). The net proceeds of the Rights Issue are used for providing additional working capital of the Group.

All the new ordinary shares issued during the year rank pari passu in all aspects with the existing ordinary shares of the Company.

- (c) According to the provisions of the Company’s Bye-laws and the conditions of the issue of the preference shares, the holders of preference shares are entitled to convert all or any of the preference shares into fully paid ordinary shares on the basis of one ordinary share of HK\$0.02 each for every HK\$1 in nominal value of preference shares so converted. In each year the preference shares may be converted on any of the following dates:
- the date falling on the 30th day after the date on which the audited financial statements of the Company for the last preceding accounting period are despatched to the holders of the preference shares; or
  - the date falling on the 30th day after the date on which the interim results of the Company in respect of any current accounting period are announced; or
  - such other dates as may be notified in writing by the directors to the holders of the preference shares not less than 30 days before such date.

In addition, as resolved by the directors on 16 December 1998, the preference shares may be converted on every second Wednesday and every last Wednesday of each month, and if such date is not a business day, on the next business day.

The Company may in accordance with the Companies Act of Bermuda and subject to the provisions of the Company's Bye-laws determine to redeem the relevant shares on any conversion date for a sum equal to (i) the nominal capital paid up or credited as paid up thereon; (ii) a fixed premium equal to five percent of the amount of such nominal capital; and (iii) outstanding dividends, out of funds of the Company which would otherwise be available for dividend or distribution to the holders of any class of share or out of the proceeds of a new issue of ordinary share.

## 22. SHARE OPTIONS

- (a) In accordance with the Company's employee share option scheme (the "Scheme") which was adopted in a special general meeting held on 25 October 1999, the directors of the Company may, at their discretion, invite eligible employees, including executive directors of the Company, to take up share options to subscribe for shares in the Company. Any share option granted can be exercised within the period as set out in the terms and conditions for the Scheme. The subscription price for the Company's share under the Scheme is determined by the board of directors and shall not be less than the higher of 80% of the average of the closing market prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options or the nominal value of the Company's shares.

Details of the share options granted by the Company under the Scheme and the share options outstanding at 31 December 2001 are set out as follows:

Date of grant	Exercisable period	Adjusted exercise price HK\$	Number of share options				
			At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2001
25.10.1999	25.10.2000-24.10.2009	0.14	42,111,235	–	–	–	42,111,235
16.11.1999	16.11.2000-24.10.2009	0.16	6,045,000	–	(8,000)	(1,212,000)	4,825,000
23.12.1999	23.12.2000-24.10.2009	0.20	3,950,000	–	–	–	3,950,000
03.01.2000	03.01.2001-24.10.2009	0.23	3,025,000	–	–	–	3,025,000
24.01.2000	24.01.2000-24.10.2009	0.23	28,700,000	–	–	–	28,700,000
24.01.2000	21.02.2000-24.10.2009	0.23	7,635,000	–	–	(135,000)	7,500,000
25.01.2000	01.03.2000-24.10.2009	0.23	2,500,000	–	–	–	2,500,000
03.03.2000	03.04.2000-24.10.2009	0.76	19,000,000	–	–	–	19,000,000
03.03.2000	03.03.2001-24.10.2009	0.76	3,650,000	–	–	(500,000)	3,150,000
28.04.2000	28.04.2001-24.10.2009	0.33	5,975,000	–	–	(1,060,000)	4,915,000
01.06.2000	01.06.2001 -24.10.2009	0.34	250,000	–	–	(250,000)	–
09.08.2000	09.08.2001-24.10.2009	0.23	1,000,000	–	–	(450,000)	550,000
25.10.2000	25.10.2001-24.10.2009	0.12	10,372,274	–	–	(440,000)	9,932,274
16.05.2001	16.05.2001-01.04.2003	0.08	–	200,000	–	–	200,000
TOTAL			134,213,509	200,000	(8,000)	(4,047,000)	130,358,509

The exercise price per share option was adjusted by the multiplier of 0.3320 in January 2002 as a result of completion of the Rights Issue.

- (b) During the year, certain subsidiaries of the Company adopted employee share option schemes (“Subsidiary Schemes”), each in terms and conditions as adopted and approved in a special general meeting of the Company held on 25 April 2001, whereby certain directors and chief executive of the Company, who are also directors of these subsidiaries, are eligible under Subsidiary Schemes to subscribe for shares in the respective subsidiaries under the terms and conditions stipulated therein. No share option has ever been granted in any of the Subsidiary Schemes since adoption.

### 23. RESERVES

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital redemption reserve HK\$'000	Other capital reserve HK\$'000	Goodwill on conso- lidation HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>Group</b>							
At 1 January 2000	227,407	1,117	6	(1,087)	(62,761)	(253,582)	(88,900)
Share issue	912,221	–	–	–	–	–	912,221
Share issue expenses	(16,894)	–	–	–	–	–	(16,894)
Release on disposal of subsidiaries	–	(1,117)	–	1,087	560	–	530
Exchange difference on translation of foreign subsidiaries	–	(388)	–	–	–	–	(388)
Goodwill on acquisition of subsidiaries	–	–	–	–	(7,134)	–	(7,134)
Net profit attributable to shareholders	–	–	–	–	–	1,302	1,302
At 31 December 2000	1,122,734	(388)	6	–	(69,335)	(252,280)	800,737
Share issue	70,638	–	–	–	–	–	70,638
Share issue expenses	(6,131)	–	–	–	–	–	(6,131)
Exchange difference on translation of foreign subsidiaries	–	381	–	–	–	–	381
Goodwill on consolidation written off	–	–	–	–	69,335	–	69,335
Net loss attributable to shareholders	–	–	–	–	–	(681,315)	(681,315)
<b>At 31 December 2001</b>	<b>1,187,241</b>	<b>(7)</b>	<b>6</b>	<b>–</b>	<b>–</b>	<b>(933,595)</b>	<b>253,645</b>
<b>Company</b>							
At 1 January 2000	227,407	–	6	–	–	(252,495)	(25,082)
Share issue	912,221	–	–	–	–	–	912,221
Share issue expenses	(16,894)	–	–	–	–	–	(16,894)
Net profit attributable to shareholders	–	–	–	–	–	31,713	31,713
At 31 December 2000	1,122,734	–	6	–	–	(220,782)	901,958
Share issue	70,638	–	–	–	–	–	70,638
Share issue expenses	(6,131)	–	–	–	–	–	(6,131)
Net loss attributable to shareholders	–	–	–	–	–	(459,819)	(459,819)
<b>At 31 December 2001</b>	<b>1,187,241</b>	<b>–</b>	<b>6</b>	<b>–</b>	<b>–</b>	<b>(680,601)</b>	<b>506,646</b>

There were no reserves available for distribution as at 31 December 2001 (2000: Nil).

**24. RECONCILIATION OF (LOSS)/PROFIT BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES**

	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
(Loss)/Profit before taxation	(682,025)	3,995
Interest income	(4,216)	(28,795)
Income from unlisted investments	–	(66)
Interest on obligations under finance leases	1,216	140
Depreciation	32,134	10,508
Loss on disposal of property, plant and equipment	1,471	152
Intangible assets and goodwill written off	114,795	–
Unrealised holding loss on other investments	240,476	–
Provision for diminution in value of investment securities	72,021	8,904
Share of results of associates	752	1,110
Amortisation of long-term investments	–	1,000
Bad debts written off	27,237	42
Provision for doubtful debts	6,170	1,100
Loss on disposal of other investments	3,807	–
Gain on disposal of subsidiaries	–	(23,521)
Gain on disposal of investment securities	–	(76,051)
Amortisation of intangible assets	2,471	1,163
Changes in working capital:		
Properties held for sale	3,734	(3,734)
Inventories	978	(2,399)
Trade and other receivables	(13,185)	(70,275)
Trade and other payables	491	90,114
Effect of exchange rate changes	381	–
<b>Net cash outflow from operating activities</b>	<b>(191,292)</b>	<b>(86,613)</b>

**25. MAJOR NON-CASH TRANSACTION**

The Group entered into finance lease arrangements in respect of machinery and equipment with a total capital value at the inception of the arrangements of HK\$24,601,000 (2000: HK\$794,000).

**26. PURCHASE OF SUBSIDIARIES**

	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Net liabilities acquired:		
Property, plant and equipment	–	303
Trade and other receivables	759	808
Cash and cash equivalents	397	2,219
Trade and other payables	(408)	(5,203)
	748	(1,873)
Goodwill	1,252	7,122
	<b>2,000</b>	<b>5,249</b>
Satisfied by:		
Cash	2,000	5,000
Direct costs incurred	–	249
	<b>2,000</b>	<b>5,249</b>



Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiaries:

	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Cash consideration	2,000	5,000
Bank balances and cash acquired	(397)	(2,219)
Cash payment for direct costs	—	249
	<u>          </u>	<u>          </u>
<b>Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries</b>	<b>1,603</b> <u>          </u>	<b>3,030</b> <u>          </u>

## 27. DISPOSAL OF SUBSIDIARIES

	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Net assets disposed of:		
Property, plant and equipment	—	10,219
Long-term investments	—	5,757
Inventories	—	2,016
Other investments	15,000	—
Trade and other receivables	—	10,733
Cash and cash equivalents	—	5,068
Trade and other payables	—	(12,952)
Taxation	—	(616)
Minority interests	—	(14,276)
Exchange reserve	—	(1,117)
Other capital reserve	—	1,087
Reserve on consolidation	—	560
	<u>          </u>	<u>          </u>
	15,000	6,479
Gain on disposal of subsidiaries	—	23,521
	<u>          </u>	<u>          </u>
	<b>15,000</b> <u>          </u>	<b>30,000</b> <u>          </u>

Analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries:

	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Cash consideration	15,000	—
Cash and bank balances disposed	—	(5,068)
	<u>          </u>	<u>          </u>
<b>Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries</b>	<b>15,000</b> <u>          </u>	<b>(5,068)</b> <u>          </u>

**28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR**

	Issued capital and share premium <i>HK\$'000</i>	Obligations under finance leases <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
At 1 January 2000	250,596	–	12,441
Cash inflow/(outflow) from financing	742,046	(212)	–
Inception of finance leases contracts	–	794	–
Share of profit for the year	–	–	1,954
Disposal of subsidiaries	–	–	(14,276)
Conversion of preference shares	161,291	–	–
At 31 December 2000	1,153,933	582	119
Cash inflow/(outflow) from financing	127,293	(8,926)	591
Inception of finance leases contracts	–	24,601	–
Share of loss for the year	–	–	(710)
At 31 December 2001	1,281,226	16,257	–

**29. COMMITMENTS UNDER OPERATING LEASES**

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

	Group		Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Operating leases which expire:				
Within one year	10,361	4,515	651	1,284
In the second to fifth years inclusive	4,144	1,784	–	31
	14,505	6,299	651	1,315

**30. DEFERRED TAXATION**

At the balance sheet date, the major components of the deferred taxation liabilities/(assets) unprovided are as follows:

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Excess of tax allowances over depreciation	2,691	2,187
Tax losses carried forward	(88,833)	(28,421)
	(86,142)	(26,234)

A potential deferred tax asset has not been recognised in the financial statements in respect of tax losses available to set off future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

**31. RELATED PARTY TRANSACTION**

During the year, the Group paid international telecommunication services fee of HK\$6,563,000 (2000: HK\$4,471,000) to Mandarin Communications Limited, a subsidiary of SUNDAY Communications Limited ("SUNDAY"). Messrs. Richard John Siemens, Kuldeep Saran and William Bruce Hicks are directors of both the Company and SUNDAY.

**32. SEGMENTAL INFORMATION**

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

**(a) By business segments****Year ended 31 December 2001**

	<b>Telecom- munication services HK\$'000</b>	<b>Corporate management services HK\$'000</b>	<b>Others HK\$'000</b>	<b>Consolidated HK\$'000</b>
<b>Turnover</b>				
External sales	<u>224,162</u>	<u>34,912</u>	<u>4,822</u>	<u>263,896</u>
<b>Result</b>				
Loss from operations	(163,391)	(22,612)	(16,107)	(202,110)
Intangible assets and goodwill written off	<u>(105,628)</u>	<u>(2,508)</u>	<u>(6,659)</u>	<u>(114,795)</u>
	<u>(269,019)</u>	<u>(25,120)</u>	<u>(22,766)</u>	<u>(316,905)</u>
Finance costs				(1,216)
Other operating income and expenses				(50,655)
Unrealised holding loss on other investments				(240,476)
Provision for diminution in value of investment securities				(72,021)
Share of results of associates				<u>(752)</u>
Loss from ordinary activities				(682,025)
Minority interests				<u>710</u>
Net loss attributable to shareholders				<u>(681,315)</u>

**Year ended 31 December 2001**

	Telecom- munication services <i>HK\$'000</i>	Corporate management services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Other information</b>					
Capital expenditure	158,635	3,076	1,234		
Depreciation and amortisation	30,725	1,286	2,076		
Significant non-cash expenses (other than depreciation and amortisation)	<u>7,678</u>	<u>–</u>	<u>271</u>		
<b>Assets</b>					
Segment assets	268,899	8,134	9,715	(382)	286,366
Interests in associates					4,838
Unallocated assets					761,790
Intra-segment elimination					<u>(580,871)</u>
					<u>472,123</u>
<b>Liabilities</b>					
Segment liabilities	618,010	34,629	39,858	(581,253)	111,244
Unallocated liabilities					<u>3,569</u>
					<u>114,813</u>

**Year ended 31 December 2000**

	Telecom- munication services <i>HK\$'000</i>	Corporate management services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Turnover</b>				
External sales	<u>63,740</u>	<u>1,284</u>	<u>35,101</u>	<u>100,125</u>
<b>Result</b>				
Loss from operations	<u>(76,864)</u>	<u>(9,777)</u>	<u>(2,607)</u>	(89,248)
Finance costs				(140)
Other operating income and expenses				103,397
Provision for diminution in value of investment securities				(8,904)
Share of results of associates				<u>(1,110)</u>
Profit from ordinary activities before taxation				3,995
Taxation				<u>(739)</u>
Profit after ordinary activities after taxation				3,256
Minority interests				<u>(1,954)</u>
Net profit attributable to shareholders				<u>1,302</u>

Year ended 31 December 2000

	Telecom- munication services <i>HK\$'000</i>	Corporate management services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Other information</b>					
Capital expenditure	134,957	3,276	5,779		
Depreciation and amortisation	8,760	345	2,266		
Significant non-cash expenses (other than depreciation and amortisation)	1,142	–	–		
<b>Assets</b>					
Segment assets	198,575	2,260	17,070	(303)	217,602
Interests in associates					12,687
Unallocated assets					993,148
Intra-segment elimination					(283,463)
					939,974
<b>Liabilities</b>					
Segment liabilities	340,701	7,651	31,253	(283,766)	95,839
Unallocated liabilities					2,519
					98,358

## (b) By geographical segments

Year ended 31 December 2001

	Asia Pacific <i>HK\$'000</i>	North America <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Turnover</b>			
External sales	<u>150,319</u>	<u>113,577</u>	<u>263,896</u>
<b>Result</b>			
Loss from operations	(105,181)	(96,929)	(202,110)
Intangible assets and goodwill written off	<u>(79,102)</u>	<u>(35,693)</u>	<u>(114,795)</u>
	<u>(184,283)</u>	<u>(132,622)</u>	(316,905)
Finance costs			(1,216)
Other operating income and expenses			(50,655)
Unrealised holding loss on other investments			(240,476)
Provision for diminution in value of investment securities			(72,021)
Share of results of associates			<u>(752)</u>
Loss from ordinary activities before taxation			(682,025)
Minority interests			<u>710</u>
Net loss attributable to shareholders			<u>(681,315)</u>
<b>Other information</b>			
Segment assets	313,551	153,734	467,285
Interests in associates			<u>4,838</u>
			<u>472,123</u>
Capital expenditure	<u>92,311</u>	<u>71,167</u>	

## Year ended 31 December 2000

	Asia Pacific <i>HK\$'000</i>	North America <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Turnover</b>			
External sales	<u>67,603</u>	<u>32,522</u>	<u>100,125</u>
<b>Result</b>			
Loss from operations	<u>(78,681)</u>	<u>(10,567)</u>	(89,248)
Finance costs			(140)
Other operating income and expenses			103,397
Provision for diminution in value of investment securities			(8,904)
Share of results of associates			<u>(1,110)</u>
Profit from ordinary activities before taxation			3,995
Taxation			<u>(739)</u>
Profit from ordinary activities after taxation			3,256
Minority interests			<u>(1,954)</u>
Net profit attributable to shareholders			<u>1,302</u>
<b>Other information</b>			
Segment assets	786,027	141,260	927,287
Interests in associates			<u>12,687</u>
			<u>939,974</u>
Capital expenditure	<u>47,886</u>	<u>97,253</u>	

## 33. COMPARATIVE FIGURES

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

#### 4. UNAUDITED CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2002

The following is extracted from the unaudited consolidated interim report of the Group for the six months ended 30 June 2002.

##### Condensed Consolidated Income Statement

		<b>Six months ended 30 June</b>	
		<b>2002</b>	<b>2001</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Turnover</b>	2	140,592	126,923
Cost of sales		(102,909)	(101,170)
Gross profit		37,683	25,753
Other revenue	3	1,261	3,747
		38,944	29,500
Distribution costs		(12,736)	(11,296)
Business promotion and marketing expenses		(3,767)	(20,688)
Operating and administrative expenses		(78,756)	(108,469)
Depreciation and amortisation		(22,686)	(16,342)
<b>Loss from operations</b>		(79,001)	(127,295)
Finance costs		(770)	(105)
Intangible assets and goodwill written off		–	(112,956)
Provision for diminution in value of investment securities		(26,882)	(118,945)
Unrealised holding loss on other investments		(8,675)	(177,283)
Share of results of associates		–	(501)
<b>Loss from ordinary activities before taxation</b>		(115,328)	(537,085)
Taxation	4	–	–
<b>Loss from ordinary activities after taxation</b>		(115,328)	(537,085)
Minority interests		–	–
<b>Net loss attributable to shareholders</b>		<u>(115,328)</u>	<u>(537,085)</u>
<b>Loss per share</b>	5		
Basic		(2.45) cents	(29.89) cents
Diluted		<u>N/A</u>	<u>N/A</u>
EBITDA	6	<u>(56,315)</u>	<u>(110,953)</u>

The Company did not declare any dividends and did not have any extraordinary items for each of the six months ended 30 June 2001 and 30 June 2002.



**Condensed Consolidated Balance Sheet**

		As at <b>30 June 2002</b> (Unaudited) <i>HK\$'000</i>	As at <b>31 December 2001</b> (Audited) <i>HK\$'000</i>
	<i>Note</i>		
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	211,511	215,428
Interests in associates		4,838	4,838
Investment securities		4,552	31,434
		<u>220,901</u>	<u>251,700</u>
<b>Current assets</b>			
Other investments		24,339	47,737
Trade and other receivables	8	44,497	54,230
Pledged deposits		7,714	7,107
Cash and cash equivalents		33,120	111,349
		<u>109,670</u>	<u>220,423</u>
<b>Current liabilities</b>			
Trade and other payables	9	78,360	98,556
Current portion of obligations under finance leases		9,694	11,372
		<u>88,054</u>	<u>109,928</u>
<b>Net current assets</b>		<u>21,616</u>	<u>110,495</u>
<b>Total assets less current liabilities</b>		242,517	362,195
<b>Long-term liabilities</b>			
Obligations under finance leases		1,017	4,885
<b>Minority interests</b>		<u>—</u>	<u>—</u>
<b>NET ASSETS</b>		<u><u>241,500</u></u>	<u><u>357,310</u></u>
<b>CAPITAL AND RESERVES</b>			
Issued capital		103,665	103,665
Reserves		137,835	253,645
		<u><u>241,500</u></u>	<u><u>357,310</u></u>

Condensed Consolidated Statement of Changes in Equity

	Share capital (Unaudited) <i>HK\$'000</i>	Share premium (Unaudited) <i>HK\$'000</i>	Exchange reserve (Unaudited) <i>HK\$'000</i>	Capital redemption reserve (Unaudited) <i>HK\$'000</i>	Reserve on consolid- ation (Unaudited) <i>HK\$'000</i>	Accumu- lated losses (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
As at 1 January 2001	40,879	1,122,734	(388)	6	(69,335)	(252,280)	841,616
Share issued at premium	62,786	70,638	–	–	–	–	133,424
Share issue expenses	–	(6,131)	–	–	–	–	(6,131)
Exchange difference on translation of foreign subsidiaries	–	–	381	–	–	–	381
Goodwill on consoli- dation written off	–	–	–	–	69,335	–	69,335
Net loss attributable to shareholders	–	–	–	–	–	(681,315)	(681,315)
As at 31 December 2001	103,665	1,187,241	(7)	6	–	(933,595)	357,310
Share issue expenses	–	(489)	–	–	–	–	(489)
Exchange difference on translation of foreign subsidiaries	–	–	7	–	–	–	7
Net loss attributable to shareholders	–	–	–	–	–	(115,328)	(115,328)
As at 30 June 2002	103,665	1,186,752	–	6	–	(1,048,923)	241,500

**Condensed Consolidated Cash Flow Statement**

	<b>Six months ended 30 June</b>	
	<b>2002</b>	<b>2001</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Net cash outflow from operating activities</b>	(75,701)	(136,324)
Net cash (outflow)/inflow from returns on investments and servicing of finance	(522)	3,642
Tax Paid	–	–
Net cash outflow from investing activities	<u>(18,769)</u>	<u>(89,978)</u>
<b>Net cash outflow before financing activities</b>	(94,992)	(222,660)
Net cash (outflow)/inflow from financing activities	<u>(6,028)</u>	<u>7,501</u>
<b>Decrease in cash and cash equivalents</b>	(101,020)	(215,159)
Cash and cash equivalents as at 1 January	<u>166,193</u>	<u>412,988</u>
<b>Cash and cash equivalents as at 30 June</b>	<u><u>65,173</u></u>	<u><u>197,829</u></u>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	33,120	85,291
Pledged deposits	7,714	5,000
Other investments	<u>24,339</u>	<u>107,538</u>
	<u><u>65,173</u></u>	<u><u>197,829</u></u>

Notes:

**1. Basis of preparation and accounting policies**

The condensed consolidated interim financial statements are prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and the applicable disclosure requirements under Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

**2. Turnover and segmental information**

The analysis of the Group’s turnover and results by principal business activities and geographical area of operations during the period are as follows:

(a) *by business segments:*

	Six months ended 30 June 2002			Six months ended 30 June 2001		
	Telecom- munication services (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consoli- dated (Unaudited) HK\$'000	Telecom- munication services (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Consoli- dated (Unaudited) HK\$'000
<b>Turnover</b>						
External sales	<u>131,187</u>	<u>9,405</u>	<u>140,592</u>	<u>105,078</u>	<u>21,845</u>	<u>126,923</u>
<b>Result</b>						
Loss from operations	(62,708)	(8,477)	(71,185)	(84,394)	(21,677)	(106,071)
Intangible assets and goodwill written off	<u>–</u>	<u>–</u>	<u>–</u>	<u>(105,718)</u>	<u>(7,238)</u>	<u>(112,956)</u>
	<u>(62,708)</u>	<u>(8,477)</u>	<u>(71,185)</u>	<u>(190,112)</u>	<u>(28,915)</u>	<u>(219,027)</u>
Finance costs			(770)			(105)
Other operating income and expenses			(7,816)			(21,224)
Unrealised holding loss on other investments			(8,675)			(177,283)
Provision for diminution in value of investment securities			(26,882)			(118,945)
Share of results of associates			<u>–</u>			<u>(501)</u>
Net loss attributable to shareholders			<u>(115,328)</u>			<u>(537,085)</u>

(b) by geographical segments:

	Six months ended 30 June 2002			Six months ended 30 June 2001		
	Asia Pacific	North America	Consolidated	Asia Pacific	North America	Consolidated
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
<b>Turnover</b>						
External sales	<u>64,249</u>	<u>76,343</u>	<u>140,592</u>	<u>71,420</u>	<u>55,503</u>	<u>126,923</u>
<b>Result</b>						
Loss from operations	(14,264)	(56,921)	(71,185)	(58,709)	(47,362)	(106,071)
Intangible assets and goodwill written off	<u>–</u>	<u>–</u>	<u>–</u>	<u>(77,263)</u>	<u>(35,693)</u>	<u>(112,956)</u>
	<u>(14,264)</u>	<u>(56,921)</u>	<u>(71,185)</u>	<u>(135,972)</u>	<u>(83,055)</u>	<u>(219,027)</u>
Finance costs			(770)			(105)
Other operating income and expenses			(7,816)			(21,224)
Unrealised holding loss on other investments			(8,675)			(177,283)
Provision for diminution in value of investment securities			(26,882)			(118,945)
Share of results of associates			<u>–</u>			<u>(501)</u>
Net loss attributable to shareholders			<u>(115,328)</u>			<u>(537,085)</u>

### 3. OTHER REVENUE

	Six months ended 30 June	
	2002	2001
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest income	248	3,747
Others	<u>1,013</u>	<u>–</u>
	<u>1,261</u>	<u>3,747</u>

### 4. TAXATION

Hong Kong Profits Tax and overseas taxation have not been provided as the Group has no assessable profits for the period (30 June 2001: Nil).

### 5. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2002 was based upon the consolidated loss attributable to shareholders of HK\$115,328,000 (30 June 2001 : HK\$537,085,000) and on the weighted average number of 4,699,262,008 (30 June 2001: 1,797,078,196) ordinary shares in issue during the period.

The fully diluted loss per share for 2001 and 2002 are not shown because the potential ordinary shares would decrease the loss per share and would be regarded as anti-dilutive.

The comparative amount of the loss per share has been adjusted for the effect of the rights issue of 3,139,294,672 shares of the Company in December 2001.

## 6. EBITDA

EBITDA represents earnings before interest expenses, taxation, depreciation, amortisation, intangible assets and goodwill written off, provision for diminution in value of investment securities, unrealised holding loss on other investments and the Group's share of results of associates.

## 7. ACQUISITIONS AND DISPOSALS OF PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment for an amount of approximately HK\$20.7 million (31 December 2001: HK\$159.2 million) and the disposal was approximately HK\$6.5 million (31 December 2001: HK\$5 million).

## 8. TRADE AND OTHER RECEIVABLES

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Trade receivables	33,909	37,943
Other receivables		
Deposits, prepayments and other debtors	10,588	16,287
	<u>44,497</u>	<u>54,230</u>

The Group's credit terms on credit 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.

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Current	29,255	29,048
1 to 3 months	3,753	5,922
More than 3 months but less than 12 months	901	2,973
	<u>33,909</u>	<u>37,943</u>

9.

TRADE AND OTHER PAYABLES

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Trade payables	42,656	42,041
Other payables		
Accrued charges and other creditors	35,704	56,515
	<u>78,360</u>	<u>98,556</u>

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

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Current	16,210	12,617
1 to 3 months	9,993	16,580
More than 3 months but less than 12 months	16,453	12,844
	<u>42,656</u>	<u>42,041</u>

10.

COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period’s presentation.

## 5. PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

Set out below is the pro forma unaudited consolidated net tangible assets of the Group based on the audited consolidated net assets of the Group as at 31 December 2001 adjusted to reflect the effect of the Rights Issue assuming that 235,447,100 Rights Shares are issued.

	<i>HK\$'000</i>
Audited consolidated net assets of the Group as at 31 December 2001	357,310
Unaudited loss attributable to the Shareholders for the six months ended 30 June 2002	(115,328)
Movements in reserves	(482)
	<hr/>
Consolidated net tangible assets of the Group immediately before the Rights Issue	241,500
Estimated net proceeds of the Rights Issue	25,750
	<hr/>
Pro forma unaudited adjusted consolidated net tangible assets of the Group immediately after the Rights Issue	267,250
	<hr/> <hr/>
Pro forma unaudited adjusted consolidated net tangible assets value per New Share immediately before the Rights Issue ( <i>Note 1</i> )	HK\$1.03
	<hr/> <hr/>
Pro forma unaudited adjusted consolidated net tangible assets value per New Share immediately following the Rights Issue ( <i>Note 2</i> )	HK\$0.57
	<hr/> <hr/>

*Notes:*

- (1) Based on the total number of 4,708,942,008 Existing Shares (equivalent to 235,447,100 New Shares) in issue as at the Latest Practicable Date.
- (2) Based on the 470,894,200 New Shares which comprise 235,447,100 New Shares in issue immediately following the Capital Reorganisation and 235,447,100 Rights Shares to be issued pursuant to the Rights Issue (Assuming that no Share Options are duly exercised before the Record Date).



**6. INDEBTEDNESS**

At the close of business on 31 August 2002, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding obligations under finance leases of approximately HK\$9 million. In addition, the Group has pledged various fixed deposits of approximately HK\$8 million to banks to secure bank guarantee issued to telecommunication carriers.

Save as aforesaid and apart from intra-group liabilities, the Group did not have at the close of business on 31 August 2002 any outstanding mortgages, charges, debentures or other loan capital, bank loans and overdrafts or other similar indebtedness, liabilities under acceptable credits, obligations under hire purchase contracts or finance leases, guarantees or other material contingent liabilities.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 31 August 2002.

**7. MATERIAL CHANGES**

As at the Latest Practicable Date, the Directors are not aware of any circumstances or events that may give rise to a material change in the financial or trading condition or prospects of the Group since 31 December 2001 (the date to which the latest published audited financial statements of the Group were made up).

**8. WORKING CAPITAL**

The Directors are of the opinion that in the absence of unforeseeable circumstances and after taking into account the net proceeds for the Rights Issue, the Group's internal resources and available borrowing facilities, the Group has sufficient working capital for its present requirements.

This appendix serves as an explanatory statement, as required by the Listing Rules, to provide information to the Shareholders regarding the Repurchase Mandate as referred to in the section headed “General mandates” in the “Letter from the Board” in this circular. For the purpose of this appendix, the term “shares” (unless otherwise stated) shall be as defined in the Code on Share Repurchases which means shares of all classes and securities which carry a right to subscribe for or purchase shares.

## **SHARE CAPITAL**

As at the Latest Practicable Date, 4,708,942,008 Existing Shares were in issue. The Company will issue the Rights Shares upon the Capital Reorganisation becoming effective and the Rights Issue becoming unconditional, if the relevant resolutions set out in the notice convening the SGM have been passed. Subject to the passing of the relevant resolutions and on the basis that no further shares of the Company are issued prior to the SGM, there will be 470,894,200 New Shares in issue and exercise in full of the Repurchase Mandate would result in up to a maximum of 47,089,420 New Shares being repurchased by the Company.

## **REASONS FOR REPURCHASE**

The Directors believe that the Repurchase Mandate is in the interests of the Company and the Shareholders. Repurchases of shares may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets and/or earnings per share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders as a whole.

## **FUNDING OF REPURCHASE**

Repurchase of the shares will be derived from those funds legally permitted to be utilised in this connection in accordance with the memorandum of association and the bye-laws of the Company and the applicable laws of Bermuda.

The Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on levels of borrowing which in the opinion of the Directors are from time to time appropriate for the Company. There might be an adverse effect on the working capital requirements or borrowing levels of the Company (as compared with the position disclosed in the latest published audited consolidated accounts for the year ended 31 December 2001) in the event that the Repurchase Mandate is exercised in full at any time.

## SHARE PRICES

The highest and lowest prices at which the Existing Shares have traded on the Stock Exchange during each of the previous twelve months before the Latest Practicable Date were as follows:

	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
<b>2001</b>		
October	0.067	0.042
November	0.074	0.041
December	0.069	0.042
<b>2002</b>		
January	0.057	0.043
February	0.049	0.042
March	0.051	0.043
April	0.044	0.031
May	0.045	0.037
June	0.039	0.028
July	0.032	0.010
August	0.016	0.010
September	0.013	0.010

## UNDERTAKING

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will only exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of Bermuda.

## DISCLOSURE OF INTERESTS

None of the Directors nor, to the best of their knowledge after having made all reasonable enquiries, any of their associates has any present intention to sell any shares to the Company or its subsidiaries under the Repurchase Mandate, if the Repurchase Mandate is approved by the Shareholders and exercised.

No connected persons (within the meaning as ascribed thereto under the Listing Rules) have notified the Company that they have any present intention to sell shares to the Company or its subsidiaries, or have undertaken not to do so, in the event that the Repurchase Mandate is approved by the Shareholders and exercised.

**TAKEOVERS CODE**

If, as a result of repurchase of shares by the Company, a proportionate interest in the voting rights of the Company held by a holder of shares may increase, such increase will be treated as an acquisition for the purpose of the Rule 32 of the Takeovers Code. Accordingly, a holder of shares, or group of holders of shares acting in concert, could obtain or consolidate control of the Company or become obliged to make a mandatory general offer in accordance with Rule 26 and Rule 32 of the Takeovers Code.

As at the Latest Practicable Date, the only substantial Shareholder is Mr. Siemens who together with companies controlled by him beneficially held 513,529,500 Existing Shares representing approximately 10.91% of the existing issued share capital of the Company. Mr. Siemens and the parties acting in concert with him (including Mr. Saran and Mr. Hicks) together held 910,515,642 Existing Shares, representing about 19.34% of the existing issued share capital of the Company. As at the Latest Practicable Date, if the Repurchase Mandate is exercised in full, the shareholding of Mr. Siemens and parties acting in concert with him will be increased to approximately 21.48%. The Directors are not aware of any consequences which may arise under the Takeovers Code that a Shareholder or group of Shareholders acting in concert will become obliged to make a mandatory general offer in accordance with the Takeovers Code, as a result of any repurchases made under the Repurchase Mandate. After completion of the Rights Issue, in the event that any exercise of the Repurchase Mandate would, to the knowledge of the Directors, have such a consequence, the Directors would not exercise the Repurchase Mandate to such an extent.

Any repurchase of shares which would result in the number of shares held by the public being reduced to less than 25% of the shares then in issue could only be implemented with the agreement of the Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

**SHARE REPURCHASES MADE BY THE COMPANY**

No share repurchases have been made by the Company in the six months preceding the Latest Practicable Date.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than that relating to the Underwriter) and confirm, having made all reasonable enquires, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement contained herein misleading.

The directors of the Underwriter jointly and severally accept full responsibility for the accuracy of the information relating to the Underwriter contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts relating to the Underwriter not contained in this circular, the omission of which would make statement contained herein misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Directors

As at the Latest Practicable Date, the interests of the Directors (including their respective spouses, infant children, related trusts and companies controlled by them) in the securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) which require notification pursuant to section 28 of the SDI Ordinance (including interests which any such Director is taken or deemed to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Name of Director	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total Interests
Mr. Siemens	28,700,000 Share Options (Note 4)	–	513,529,500 Existing Shares (Note 1)	–	513,529,500 Existing Shares and 28,700,000 Share Options
Mr. Hicks	23,199,142 Existing Shares	–	186,837,500 Existing Shares (Note 2)	–	210,036,642 Existing Shares
Mr. Saran	3,412,000 Existing Shares	–	183,537,500 Existing Shares (Note 3)	–	186,949,500 Existing Shares
Mr. Shane Frederick Weir	100,000 Existing Shares	–	–	–	100,000 Existing Shares
Mr. Derrick Francis Bulawa	38,518,509 Share Options (Note 4)	–	–	–	38,518,509 Share Options
Mr. Lim Shyang Guey	10,300,000 Share Options (Note 4)	–	–	–	10,300,000 Share Options

*Notes:*

1. 24,000,000 Existing Shares are beneficially owned by Siemens Enterprises Limited, and 489,529,500 Existing Shares are beneficially owned by Goldstone Trading Limited, both of which are controlled by Mr. Siemens.
2. 186,837,500 Existing Shares are beneficially owned by Great Wall Holdings Limited, a company controlled by Mr. Hicks.
3. 183,537,500 Existing Shares are beneficially owned by Future (Holdings) Limited, a company controlled by Mr. Saran.
4. The Share Options were granted under the Company's employee share option scheme adopted on 25 October 1999.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interest in any equity or debt securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which he was taken or deemed to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, except for Mr. Siemens, Mr. Saran and Mr. Hicks each beneficially owned 1/3 of the shareholding interest of Interventure, none of the Directors had any interest in the securities of the Underwriter.

Except as disclosed above, at no time during the Relevant Period was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors and their associates to acquire benefits by means of the acquisition of the securities of the Company or any other body corporate.

None of the Directors had any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group since 31 December 2001 (being the date to which the latest published audited accounts of the Company were made up) or are proposed to be acquired or disposed of by or leased to any member of the Group.

None of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which has been entered into by the Underwriter or which is significant in relation to the business of the Group.

None of the Directors have entered, or are proposing to enter, into any service contract with the Company or any of its subsidiaries or associated companies which is not expiring or determinable by the Group within twelve months without payment of compensation (other than statutory compensation), or which has been entered into or amended within six months before the date of the Announcement.

No benefit (other than statutory compensation) will be given to any Director as compensation for loss of office in any member of the Group or otherwise in connection with the Rights Issue and/or the Whitewash Waiver.

As at the Latest Practicable Date, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Rights Issue or otherwise connected with the Rights Issue.

As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) exists between Interventure or any person acting in concert with it and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Rights Issue.

**(b) The Company and its subsidiaries**

None of the subsidiaries of the Company, nor pension funds of the Company or of a subsidiary of the Company, nor any fund managed on a discretionary basis by any fund manager connected with the Company had any interest in the securities of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, none of the Company or any of its subsidiaries had any interest in the securities of the Underwriter.

**(c) Directors of the Underwriter**

The details of the securities of the Company owned by the directors of the Underwriter, namely, Mr. Siemens, Mr. Saran and Mr. Hicks (including their spouses, infant children, related trusts and companies controlled by them) are disclosed in section (a) above.

**(d) The Underwriter**

Except Mr. Siemens, Mr. Saran and Mr. Hicks, neither the Underwriter nor the parties acting in concert with it had any interest in the securities of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, there was no agreement, arrangement or understanding between the Underwriter and other persons that the Rights Shares to be acquired by the Underwriter under the Underwriting Agreement will be transferred to that person.

As at the Latest Practicable Date, no person including the Underwriter and parties acting in concert with it had any arrangement of the kind referred to in note 8 to Rule 22 of the Takeovers Code with the Company, or with any parties acting in concert with the Company, or with any person who is an associate of the Company by virtue of clauses (1) to (4) of the definition of associate under the Takeovers Code.

As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Underwriter or parties acting in concert with it and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Rights Issue.

(e) Others

As at the Latest Practicable Date, none of Quam Capital Limited, Altus and Moores Rowland had any interest in the securities of the Company or any shareholding in any member of the Group or had the right to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the Shareholders has irrevocably committed itself to vote for or against the Rights Issue and the Whitewash Waiver.

3. SUBSTANTIAL SHAREHOLDER

As at the Latest Practicable Date, the following Shareholder had an interest in ten per cent or more of the issued ordinary share capital of the Company as recorded in the register of substantial Shareholder maintained by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of Shareholder	Number of Existing Shares held	Percentage of the total issued ordinary share capital
Mr. Siemens	513,529,500 (Note)	10.91%

Note: 24,000,000 Existing Shares are beneficially owned by Siemens Enterprises Limited and 489,529,500 Existing Shares are beneficially owned by Goldstone Trading Limited, both of which are controlled by Mr. Siemens.

So far as is known to any director or chief executive of the Company, there are no other persons (other than a director or chief executive of the Company) who, as at the Latest Practicable Date were, directly or indirectly, beneficially interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or in any options in respect of such capital.

4. DEALINGS IN SECURITIES

(a) Directors

None of the Directors or parties acting in concert with them had dealt in any securities of the Company during the Relevant Period.

None of the Company, the Directors and their respective associates had dealt in any securities of the Underwriter during the Relevant Period.



**(b) The Underwriter**

None of the Underwriter, the directors of the Underwriter and parties acting in concert with it had dealt in any securities of the Company during the Relevant Period.

As at the Latest Practicable Date, there were no arrangements of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code between the Underwriter or parties acting in concert with it and any other person.

**(c) Others**

No person had any arrangement of the kind referred to in note 8 to Rule 22 of the Takeovers Code with the Company, or with any person who is an associate of the Company by virtue of clauses (1) to (4) of the definition of associate under the Takeovers Code during the period between the date of the Announcement and the Latest Practicable Date.

None of the subsidiaries of the Company, pension fund of the Company or of a subsidiary of the Company, nor any fund managed on a discretionary basis by any fund manager connected with the Company had dealt in any securities of the Company during the period between the date of the Announcement and the Latest Practicable Date.

None of Quam Capital Limited, Altus and Moores Rowland had dealt in any securities of the Company during the period between the date of the Announcement and the Latest Practicable Date.

**5. DIRECTORS****Executive Directors**

**Mr. Siemens**, 57, Chairman, joined the Group in January 2000. Mr. Siemens is a founding member, Co-Chairman and Executive Director of SUNDAY Communications Limited. Mr. Siemens is also the Chairman and a founding member of Distacom Communications Limited. He has been involved in the telecommunications industry for almost 30 years. Born and raised in Canada, Mr. Siemens was trained as a Chartered Accountant and came to Hong Kong in 1979. In 1984, he was involved in the establishment of Hutchison Telephone Company Limited with Hutchison Whampoa and Motorola. Mr. Siemens, as Group Managing Director of Hutchison Telecommunications Limited, was also involved in the establishment of other well-known companies including AsiaSat, STAR TV and Metro Radio and Hutchison's move into the European wireless business with "Orange", as well as Hutchison's European telecom strategy.

**Mr. Saran**, 51, was appointed as Deputy Chairman and Executive Director of the Company in December 2001. Actively involved in top-level management and the strategic development of the Company, Mr. Saran is also an Executive Director of SUNDAY Communications Limited and Distacom Communications Limited. Mr. Saran was formerly with Hutchison Telecommunications in Hong Kong responsible for the development and execution of new business in the United Kingdom, Thailand, Malaysia, India, Taiwan and China. Mr. Saran has nearly 20 years of experience in the telecommunications industry. He received his B. Tech degree from the Indian Institute of Technology at Kanpur in 1973 and his MBA from Syracuse University in 1977.

**Mr. Derrick Francis Bulawa**, 38, joined the Group in September 1999 as Chief Executive Officer and was appointed in October 1999 as Executive Director. As CEO of the Company, Mr. Bulawa oversees the development and execution of the Group's unique vision for convergent services. He is also the Group's chief strategist and his responsibilities include paying personal attention to investor relations and the Group's worldwide services businesses. Mr. Bulawa was among the key founders of STAR TV and also served as Chief Operating Officer for the US based UNIFI Communications where he worked extensively in the Asian satellite, data and telecommunications sectors. He has more than 16 years of entrepreneurial and communications experience in the United States and Asia. Mr. Bulawa received his Bachelor of Science degree in Electronic Engineering Technology from the DeVry Institute of Technology in the United States.

**Mr. Lim Shyang Guey**, 43, was appointed as Executive Director and Vice-President, Corporate Development of the Company in October 1999. Mr. Lim is responsible for executing the Group's corporate strategy and overseeing major shareholder and investor issues. He also plays an active role as Executive Director on the Company's Board of Directors and was one of the core creators of the Group's unique business vision. He has more than 13 years of experience in telecommunications and information technology in various countries including New Zealand, Russia, Malaysia and Singapore. Mr. Lim holds a Bachelor of Engineering degree and a Master of Engineering degree, both from the University of Auckland in New Zealand.

The business address for each of the Executive Directors is Suite 2101-3, K. Wah Centre, 191 Java Road, North Point, Hong Kong.

#### **Non-executive Director**

**Mr. Hicks**, 41, was appointed as Non-executive Director of the Company in December 2001. Mr. Hicks is the Group Managing Director of SUNDAY Communications Limited. He has been a partner of Distacom Communications Limited since 1994 and currently serves as an Executive Director and the Distacom group's Chief Technology Officer. Prior to joining Distacom, Mr. Hicks was with Hutchison Telecom, where he was responsible for technical operations in Hong Kong and actively involved in new business development in Asia and Europe. Mr. Hicks, a Canadian, began his career with Motorola Inc. in the United States. He received his B.S.E.E.

degree from Michigan Technological University in 1983 and an M.B.A. from the International Management Institute in Geneva, Switzerland in 1987. The business address of Mr. Hicks is 16/F East, Warwick House, TaiKoo Place, 979 King's Road, Quarry Bay, Hong Kong.

#### **Independent non-executive Directors**

**Mr. Shane Frederick Weir**, 48, was appointed as Independent Non-executive Director of the Company in August 2001. Mr. Weir is a consultant of Weir & Associates, Solicitors & Notaries. Born and educated in Canada, Mr. Weir's practice as solicitor concentrates on corporate commercial tax and securities matters. He has practiced in Hong Kong since 1985 and for several years was employed in Hong Kong as an associate with Phillips & Vineberg, one of the oldest and most respected commercial law firms in North America. Mr. Weir qualified as a solicitor, barrister, and notary public in Canada in 1978 and was admitted as a solicitor in the United Kingdom as well as in Hong Kong in 1992. The business address of Mr. Weir is 5th Floor, Landmark East, Central, Hong Kong.

**Mr. Matthew Brian Rosenberg**, 31, was appointed as Independent Non-executive Director of the Company in August 2001. Mr. Rosenberg is currently the Vice-President of International Sales & Operations for Forgent Networks, Inc. (formerly known as Global Scheduling Solutions ("GSS")). He comes to GSS with a diverse background spanning over 9 years in Internet & telecom technology, revenue driven channel management and strategic business planning. His international management experience spans both Asia, Australia and Europe, abilities in several languages, and success in developing business models and revenues in both regions of the world. He holds a Bachelor of Arts in Japanese and Spanish from the University of Amherst, Massachusetts. The business address of Mr. Rosenberg is Flat 36, Sailmakers Ct., William Morris Way, Fulham, London SW6 2UX, United Kingdom.

## **6. MARKET PRICES**

The table below shows the closing price of the Existing Shares on the Stock Exchange on (i) the last trading day on which trading in Existing Shares took place in each of the six calendar months immediately preceding the date of the Announcement; (ii) 4 October 2002, being the last trading day immediately preceding the date in which trading in the Existing Shares was suspended pending the issue of the Announcement; and (iii) the Latest Practicable Date.

<b>Date</b>	<b>Closing price of the Existing Shares HK\$</b>
30 April 2002	0.038
31 May 2002	0.038
28 June 2002	0.030
31 July 2002	0.015
30 August 2002	0.013
30 September 2002	0.010
4 October 2002	0.010
Latest Practicable Date	0.010

The highest and lowest closing prices of the Existing Shares as recorded on the Stock Exchange during the period between 8 April 2002, being the date falling six months prior to the day on which trading in the Existing Shares was suspended pending the issue of the Announcement, and ending on the Latest Practicable Date were HK\$0.044 on 7 May 2002 and HK\$0.01 for the trading days from 19 September 2002 to Latest Practicable Date respectively.

## 7. LEGAL ADVISERS, AUDITORS, SHARE REGISTRARS AND PRINCIPAL BANKERS OF THE COMPANY

<b>Registered Office</b>	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
<b>Head office and principal place of business</b>	Suite 2101-3 K. Wah Centre 191 Java Road North Point Hong Kong
<b>Legal advisers</b>	<i>As to Hong Kong law:</i> <b>Angela Wang &amp; Co.</b> 24th Floor, Entertainment Building 30 Queen's Road Central Hong Kong  <i>As to Bermuda law:</i> <b>Conyers, Dill &amp; Pearman</b> 2901 One Exchange Square 8 Connaught Place Central Hong Kong
<b>Auditors</b>	<b>Moores Rowland</b> <i>Chartered Accountants</i> <i>Certified Public Accountants</i> 34th Floor The Lee Gardens 33 Hysan Avenue Causeway Bay Hong Kong

**Principal share registrars and  
transfer office in Bermuda**

**Butterfield Fund Services (Bermuda)  
Limited** (*Formerly known as Butterfield  
Corporate Services Limited*)  
Rosebank Centre  
11 Bermudiana Road  
Pembroke  
Bermuda

**Branch share registrars and  
transfer office in Hong Kong**

**Secretaries Limited**  
5th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

**Principal bankers**

**The Hongkong and Shanghai Banking  
Corporation Limited**  
1 Queen’s Road  
Central  
Hong Kong

**Bank of China (Hong Kong) Limited**  
Bank of China Tower  
1 Garden Road  
Central, Hong Kong

**8. QUALIFICATION OF EXPERT**

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Altus	Registered investment adviser under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)

**9. CONSENTS**

Altus has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of its letter and reference to its name, in the form and context in which it appears.

Quam Capital Limited has given and has not withdrawn its consent to the issue of this circular with the inclusion of its name therein.

**10. LITIGATION**

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

**11. MATERIAL CONTRACTS**

The contracts which have been entered into by members of the Group within two years preceding the Latest Practicable Date, which are not in the ordinary course of business and which are or may be material are as follows:

- (a) the Underwriting Agreement; and
- (b) the underwriting agreement dated 4 October 2001 entered into between the Company and Quam Securities Company Limited relating to the underwriting of a rights issue.

**12. GENERAL**

- (a) The head office and principal place of business of the Company in Hong Kong is at Suite 2101–3, K. Wah Centre, 191 Java Road, North Point, Hong Kong. The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The branch share registrars and transfer office of the Company in Hong Kong is Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.
- (b) The secretary of the Company is Ms. Wang Poey Foon, Angela, LLB (Hons).
- (c) The registered office of Interventure is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands and its correspondence address is Unit C, 26th Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong. The directors of Interventure are Mr. Siemens, Mr. Saran and Mr. Hicks. The correspondence address of Mr. Siemens, Mr. Saran and Mr. Hicks is Unit C, 26th Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong.
- (d) The registered office of Quam Capital Limited is Room 3308 Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong.
- (e) The English text of this document shall prevail over the Chinese text for the purpose of interpretation.

**13. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours on weekdays (except Saturdays and public holidays) at Room 3805, Tower II, Lippo Centre, 89 Queensway, Hong Kong from the date of this circular up to and including the date of the SGM (and any adjournment thereof):

- (a) the memorandum of association and bye-laws of the Company and the memorandum and articles of association of Interventure;
- (b) the annual reports of the Company for the two years ended 31 December 2000 and 31 December 2001;
- (c) the interim report of the Company for the six months ended 30 June 2002;
- (d) the letter from Altus, the text of which is set out in this circular;
- (e) the material contracts referred to under the section headed “Material Contracts” in this appendix;
- (f) the written consents referred to under the section headed “Consents” in this appendix; and
- (g) the irrevocable undertakings from Mr. Siemens, Mr. Saran and Mr. Hicks.

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## NOTICE OF SPECIAL GENERAL MEETING

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**NOTICE IS HEREBY GIVEN** that a special general meeting of e-Kong Group Limited (the “Company”) will be held at Room 3805, Tower II, Lippo Centre, 89 Queensway, Hong Kong on Thursday, 21 November 2002 at 10:00 a.m. for the purposes of considering and, if thought fit, passing the following resolution numbered 1 as special resolution and resolutions numbered 2 to 6 as ordinary resolutions of the Company:

### **SPECIAL RESOLUTION**

1. **“THAT,** conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting the permission to deal in, shares of HK\$0.01 each in the issued share capital of the Company upon the Capital Reorganisation (as defined below) becoming effective, with effect from 9:30 a.m. on the next business day (not being a Saturday) after the date on which this resolution is passed (the “Effective Date”):
  - (a) the issued share capital of the Company be reduced by cancelling paid up capital to the extent of HK\$0.0195 on each of the ordinary shares of HK\$0.02 in the capital of the Company in issue on the Effective Date (the “Capital Reduction”) so that each issued share in the capital of the Company shall be treated as one fully-paid up ordinary share of HK\$0.0005 each in the capital of the Company (the “Reduced Share”) and any liability of the holders of Reduced Shares to make any further contribution to the capital of the Company on each such Reduced Share shall be treated as satisfied;
  - (b) subject to and forthwith upon the Capital Reduction taking effect, every twenty (20) Reduced Shares be consolidated into one (1) share of HK\$0.01 each (“New Share”) in the capital of the Company (the “Share Consolidation”) whereupon all or such New Shares resulting from the Share Consolidation shall rank pari passu in all respects and have the rights and privileges and subject to the restrictions contained in the memorandum of association and bye-laws of the Company;
  - (c) the entire amount of HK\$1,196,238,291 standing to the credit of the share premium account of the Company as at 7 October, 2002 be cancelled (the “Share Premium Cancellation”);
  - (d) subject to and forthwith upon the Capital Reduction and the Share Premium Cancellation taking effect, the credit amount arising from the Capital Reduction and the Share Premium Cancellation be credited to the contributed surplus account of the Company where they may be utilised in accordance



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with the bye-laws of the Company and all applicable laws, including setting off of the accumulated losses of the Company as at 31 December, 2001 (the “Application of Credit”);

- (e) subject to and forthwith upon the Capital Reduction, the Share Consolidation, the Share Premium Cancellation and the Application of Credit taking effect, all of the authorised but unissued shares of HK\$0.02 in the capital of the Company be sub-divided into two (2) shares of HK\$0.01 each in the capital of the Company (the “Share Subdivision”);
- (f) the bye-laws of the Company be amended by substituting the existing bye-law 3(1) with the following new bye-law 3(1):

“The share capital of the Company shall be divided into ordinary shares of HK\$0.01 each and preference shares of HK\$1.00 each at the date on which the amendment to these bye-laws comes into effect on 22 November 2002.”

- (g) the bye-laws of the Company be amended by substituting the existing bye-law 9A(4)(1) with the following new bye-law 9A(4)(1):

“Subject as hereinafter provided each holder of Preference Shares shall be entitled at the times and in the manner set out in this paragraph 4 to convert all or any of the Preference Shares into fully-paid ordinary shares (the “Ordinary Shares”) in the capital of the Company on the basis of one Ordinary Share for every \$1 in nominal value of the Preference Shares so converted or on such other basis as may be determined by the directors and agreed to by the holders of the Preference Shares and so in proportion for any greater or lesser nominal value of the Preference Shares (such rate as adjusted from time to time as provided in paragraph 6 being herein called the “Conversion Rate”) provided that if a Conversion Notice (as defined in sub-paragraph (3) below) is given in respect of part only of a holding of Preference Shares so that there would, following conversion, remain a number of Preference Shares in that holding smaller than that required to convert into one Ordinary Share at the Conversion Rate then applicable, then all Preference Shares in that holding shall be converted notwithstanding the figures inserted in the Conversion Notice.”

(together with the amendment of bye-law 3(1) as detailed in paragraph (f) above, the “Bye-law Amendments”); and

- (h) the directors of the Company be and are hereby authorised generally to do all such acts, deeds and things as they shall, in their absolute discretion, deem appropriate to effect and implement the Capital Reduction, the Share Consolidation, the Share Premium Cancellation, the Application of Credit and the Share Subdivision (collectively, the “Capital Reorganisation”) and the Bye-law Amendments.

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### ORDINARY RESOLUTIONS

2. **“THAT**, subject to the passing of special resolution numbered 1 and the fulfillment of all the conditions in the section headed “Conditions of the Rights Issue” in the Circular despatched to the shareholders of the Company, a copy of which has been produced to the meeting marked “A” and signed for the purpose of identification by the Chairman of the meeting, the issue of not less than 235,447,100 New Shares and not more than 240,530,025 New Shares, on the terms and subject to the conditions of the Rights Issue (as defined in the Circular) be and is hereby approved and the directors of the Company (“Directors”) be and are hereby authorised to allot and issue the Rights Shares pursuant to or in connection with the Rights Issue notwithstanding that the same may be offered, allotted or issued otherwise than pro-rata to the existing shareholders of the Company and, in particular, the Directors be and are hereby authorised to make such exclusions or other arrangements in relation to the Overseas Shareholders (as defined in the Circular) as they deem necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong and generally to do such things or make such arrangements as they may think fit to give effect to the Rights Issue.”
3. **“THAT**, subject to the passing of ordinary resolution numbered 2 as set out in the notice convening the special general meeting at which this Resolution is proposed, the waiver pursuant to Note 1 of the Notes on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers waiving any obligation on the part of Interventure (as defined and described in the Circular) and parties acting in concert with it to make a mandatory general offer for all the securities of the Company other than those already owned by Interventure and parties acting in concert with it which would otherwise arise as a result of any issue and allotment pursuant to application(s) made by parties acting in concert with Interventure and/or fulfillment of Interventure’s underwriting obligations to subscribe for not more than 195,004,243 Rights Shares under the Underwriting Agreement (as defined in the Circular) be and is hereby approved.”
4. **“THAT:**
  - (a) subject to the passing of special resolution numbered 1 and the following provisions of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue or otherwise deal with additional shares in the capital of the Company, or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares, and to make or grant offers, agreements or options which would or might require the exercise of such powers, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved in substitution for and to the exclusion of any existing authority previously granted;

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- (b) the approval in sub-paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements or options which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors of the Company pursuant to the approval in this Resolution, otherwise than pursuant to:
  - (i) a Rights Issue (as defined below);
  - (ii) an issue of shares as scrip dividends or similar arrangement providing the allotment of shares pursuant to the bye-laws of the Company from time to time; or
  - (iii) an issue of shares pursuant to the exercise of rights of warrants or any other securities convertible into shares to subscribe for shares of the Company or under any option scheme or similar arrangement for the time being adopted for the grant or issue to Directors or employees or eligible participants of the Company and/or any of its subsidiaries of shares or rights to acquire shares in the capital of the Company,

shall not exceed 20% of the greater of (i) the aggregate nominal amount of the issued share capital of the Company immediately after the Capital Reorganisation becoming effective or (ii) subject to the passing of ordinary resolution numbered 2 above and completion of the Rights Issue, the aggregate nominal amount of the issued share capital of the Company as enlarged by the Rights Shares (as defined in the Circular, a copy of which has been produced to the meeting marked “A” and signed by the Chairman of the meeting for the purpose of identification), and the said approval shall be limited accordingly;

- (d) subject to the passing of sub-paragraphs (a), (b) and (c) of this Resolution, any prior approvals of the kind referred to in sub-paragraphs (a), (b) and (c) of this Resolution which had been granted to the Directors and which are still in effect be and are hereby revoked; and
- (e) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company to be held; or

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- (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting;

“Rights Issue” means an offer of shares open for a period fixed by the Directors to the holders of shares of the Company or any class thereof on the register of the members on a fixed record date in proportion to their holdings of such shares or any class thereof as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

5. **“THAT:**

- (a) subject to the passing of special resolution numbered 1 and paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as defined below) of all powers of the Company to repurchase the New Shares (as defined in resolution numbered 1) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which the shares of the Company may be listed and which is recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose (“Recognised Stock Exchange”), subject to and in accordance with all applicable laws and/or the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or those of any other Recognised Stock Exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of New Shares of the Company to be repurchased by the Company pursuant to sub-paragraph (a) above during the Relevant Period shall not exceed 10% of the greater of (i) the aggregate nominal amount of the share capital of the Company in issue immediately after the Capital Reorganisation becoming effective; or (ii) subject to the passing of ordinary resolution numbered 2 above and completion of the Rights Issue, the share capital of the Company in issue as enlarged by the issue of the Rights Shares and the said approval shall be limited accordingly;
- (c) subject to the passing of sub-paragraphs (a) and (b) of this Resolution, any prior approvals of the kind referred to in sub-paragraphs (a) and (b) of this Resolution which had been granted to the Directors and which are still in effect be and are hereby revoked; and
- (d) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;

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- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company to be held; or
  - (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.
6. “**THAT**, subject to the passing of special resolution numbered 1 and ordinary resolutions numbered 4 and 5, the general mandate granted to the Directors of the Company and for the time being in force to exercise the powers of the Company to allot, issue and deal with additional shares of the Company pursuant to ordinary resolution numbered 4 be and is hereby extended by the addition to the aggregate nominal amount of the ordinary share capital of the Company which may be allotted or agreed conditionally and unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the shares repurchased by the Company under the authority granted pursuant to ordinary resolution numbered 5, provided that such extended amount shall not exceed 10% of the greater of (i) the aggregate nominal amount of the share capital of the Company in issue immediately after the Capital Reorganisation becoming effective or (ii) subject to the passing of ordinary resolution numbered 2 above and the completion of the Rights Issue, the share capital of the Company in issue as enlarged by the issue of the Rights Shares.”

By Order of the Board  
**Wang Poey Foon, Angela**  
*Company Secretary*

Hong Kong, 28 October 2002

*Notes:*

1. Any member entitled to attend and vote at the meeting convened by the above notice (or at any adjournment thereof) is entitled to appoint a proxy to attend and vote instead of him/her at the meeting. A proxy need not be a member of the Company.
2. To be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority must be lodged at the Company's branch share registrars in Hong Kong, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the proxy will not preclude any member from attending and voting in person should you so wish.
3. In case of joint registered holders of any shares, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such shares as if he/she was solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first in the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
4. A form of proxy for use at the meeting is enclosed herewith.