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NEW APPLICATION

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2000 AUG 30 A 11:55

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August 29, 2000

AZ CORP COMMISSION
DOCUMENT CONTROL

VIA OVERNIGHT DELIVERY

Arizona Corporation Commission
ATTENTION: Docket Control
1200 West Washington Street
Phoenix, Arizona 85007

**Re: Zone Telecom, Inc.
Application for Certificate of Convenience and Necessity
to Provide Intrastate Telecommunications Services as an
Interexchange Reseller**

Dear Sir/Madam:

Enclosed for filing is an original and ten copies of an application by Zone Telecom, Inc. for a certificate of convenience and necessity to provide competitive intrastate telecommunications services as an interexchange reseller in the State of Arizona.

Kindly date-stamp the additional copy of this filing and return it to me in the enclosed postage prepaid envelope. Any questions concerning this submission should be addressed to the undersigned.

Respectfully submitted,

Marissa G. Repp

Counsel for Zone Telecom, Inc.

Enclosures

FORM B

RECEIVED

ARIZONA CORPORATION COMMISSION

2000 AUG 30 A 11: 55

Application and Petition for Certificate of Convenience and Necessity to Provide Intrastate Telecommunication Services as an Interexchange Reseller

AZ CORP COMMISSION DOCUMENT CONTROL

Mail original plus 10 copies of completed application to:

For Docket Control Only: (Please Stamp Here)

Docket Control Center
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007-2927

If you have current applications pending in Arizona as an Interexchange reseller, AOS provider, or as the provider of other telecommunication services.

Type of Service: _____

Docket No.: _____ Date: _____

Docket No. _____

Type of Service: _____

Docket No.: _____ Date: _____

Date Docketed _____

A. Company and Telecommunications Service Information

(A-1) The name, address, and telephone number (including area code) of the applicant(company):

Zone Telecom, Inc.
279 Harvard Street, Suite 21
Cambridge, MA 02139
(617) 876-8002

(A-2) If doing business (dba) under a name other than the applicant (company) name listed above, specify:

(A-3) The name, address, telephone number, facsimile number and email address of the management contact:
Lawton Bloom
Vice President & Secretary
Zone Telecom, Inc.
279 Harvard Street, Suite 21
Cambridge, MA 02139
Phone: 617-876-3002
Fax: 617-687-7791
E-Mail: lbloom@mindspring.com

(A-4) The name, address, telephone number, facsimile number and email address of the Attorney, if any, representing the applicant:
Mace J. Rosenstein and Marissa G. Repp, Hogan & Hartson L.L.P.
555 - 13th Street, N.W., Washington, D.C. 20004-1109
Ph: 202-637-5600; Fax: 202-637-5910; mjrosenstein@hhlaw.com; mgrepp@hhlaw.com

(A-5) What type of legal entity is the applicant?

- • Sole proprietorship
- Partnership: ___ limited, ___ general, ___ Arizona, ___ Foreign
- Limited liability company
- Corporation: ___ S, X C, ___ non-profit, ___ Arizona, ___ Foreign
- Other, specify:

(A-6) Include Attachment A. Attachment A must list names of all owners, partners, limited liability company managers, or corporation officers and directors (specify), and indicate percentages of ownership.

See Attachment A.

(A-7) 1. Is your company currently reselling telecommunication services in Arizona? If yes, provide the date or the approximate date that you began reselling service in Arizona.

No

2. If the answer to 1. is •yes•, identify the types of telecommunications services you resell; whether operator services are provided or resold and whether they are provided or resold to traffic aggregators (as defined in A.A.C. Rule R14-2-1001(3), a copy of which is attached); the number of customers in Arizona for each type of service; and the total number of intrastate minutes resold in the latest 12 month period for which data is available. Note: The Commission rules require that a separate CC&N, issued under Article 10, be obtained in order to provide operator services to traffic aggregators.

3. If the answer to 1. is •no, when does your company plan to begin reselling service in Arizona?

Immediately upon receipt of authority, or shortly thereafter.
More generally, in the third quarter of 2000.

(A-8) Include •Attachment B. Attachment B, your proposed tariff, must include proposed rates and charges for each service to be provided, state the tariff (maximum) rate as well as the price to be charged, and state other terms and conditions, including deposits, that will apply to provision of the service(s) by your company.

The Commission provides pricing flexibility by allowing competitive telecommunications service companies to price their services at levels equal to or below the tariff (maximum) rates. The prices to be charged by the company are filed with the Commission in the form of price lists.

Note: Price list rate changes that result in rates that are lower than the tariff rate are effective upon concurrent notice to the Commission (See Rule R14-2-1109(B)(2)). See Rule R14-2-1110 for procedures to make price list changes that result in rates that are higher than the tariff rate.

See Attachment B.

(A-9) The geographic market to be served is: Statewide

• • • • Statewide

• Other. Describe and provide a map depicting the area.

(A-10) List the states in which you currently resell services similar to those you intend to resell in Arizona.
None at present; however, Zone is in the process of applying for authority to provide resold telecommunications services nationwide.

(A-11) Provide the name, address, and telephone number of the company's complaint contact person.

Customer Service Division, Zone Telecom, Inc., 459 Oakshade Road,
Shamong, NJ 08088; Ph: 800-233-4736; Contact: Jill Papenhausen

(A-12) Provide a list of states in which you have sought authority to resell telecommunications services and in which the state granted the authority with major changes and conditions or did not grant your application for those services. For each state listed, provide a copy of the Commission's decision modifying or denying your application for authority to provide telecommunications services.

N/A

(A-13) Has the company been granted authority to provide or resell telecommunications services in any state where subsequently the authority was revoked? If **•yes•**, provide copies of the State Regulatory Commission's decision revoking its authority.

No.

(A-14) Has the company been or is the company currently involved in any formal complaint proceedings before any State or Federal Regulatory Commission? If **•yes•**, in which states is the company involved in proceedings and what is the substance of these complaints. Also, provide copies of Commission orders that have resolved any of these complaints

No.

(A-15) Has the applicant been involved in any civil or criminal investigations related to the delivery of telecommunications services within the last five years? If **•yes•**, in which states has the applicant been involved in investigations and why is the applicant being investigated?

No.

(A-16) Has the applicant had judgment entered against it in any civil matter or been convicted of criminal acts related to the delivery of telecommunications services within the last five years? If yes, list the states where judgment or conviction was entered and provide a copy of the court order.

No.

B. Technical Information

(B-1) If your company is a switchless reseller, provide the name of the company or companies whose services you resell and skip to question (B-2). If you are not a switchless reseller, complete the remainder of this section.

At present, Applicant intends to resell the services of AT&T.

Include **•Attachment C••** Attachment C should provide the following information: A diagram of the applicant's basic call network used to complete Arizona intrastate telecommunications traffic. This diagram should show how a typical call is routed in both its originating and terminating ends (i.e. show the access network and call completion network).

Also include on the diagram the carrier(s) used for each major network component and indicate if the carrier is facilities-based or not. If the carrier is not facilities-based, indicate who owns the facilities (within the State of Arizona) that are used to originate and terminate the applicant's intrastate

telecommunications traffic (i.e. provide a list of the Arizona facilities-based long distance carriers whose facilities are used to complete the applicant's intrastate traffic).

(B-2) Will your customers be able to access alternative toll service providers or resellers via 1+ or 101XXXX access, if your system becomes non-operational?

Yes .

C. Financial Information

(C-1) Include Attachment D, Attachment D **must** include a copy of your Company's balance sheet, income statement, audit report (if audited) and all related notes to these financial statements for the two most recent years your Company has been in business.

See Attachment D.

(C-2) If your Company does not have financial statements for the two most recent years, please give the date your Company began operations.

The Company was incorporated on June 13, 2000, and has not yet begun operations.

(C-3) If the balance sheets you submit do not have retained earnings accounts, please provide this account information on a separate sheet.

N/A

(C-4) If your Company is a subsidiary, please provide your Parent Company's financial statements, in addition to your Company's financial statements.

See Attachment D.

(C-5) If your Company intends to rely on the financial resources of its Parent Company, please provide a written statement from your Parent Company attesting that it will provide complete financial backing if your Company experiences a net loss or a business failure and that it will guarantee re-payment of customers; advances, prepayments or deposits held by your Company if, for some reason, your Company cannot provide service or repay the deposits.

See Attachment E.

(C-6) Will your customers be required to (or have the option to) pay advances, prepayments, or deposits for any of your products or services.

YES (If yes, provide an explanation of how and when these customer advances prepayments or deposits will be applied or reference the terms and conditions section of your Company's tariffs with this explanation. If this information is not explained in the tariff of this application, please provide it on a separate sheet.)

See Tariff at page 39.

NO (Note: If at a later date, your Company decides it wants to offer or require customer advances, prepayments or deposits, it must submit financial statements as part of the tariff amendment process.)

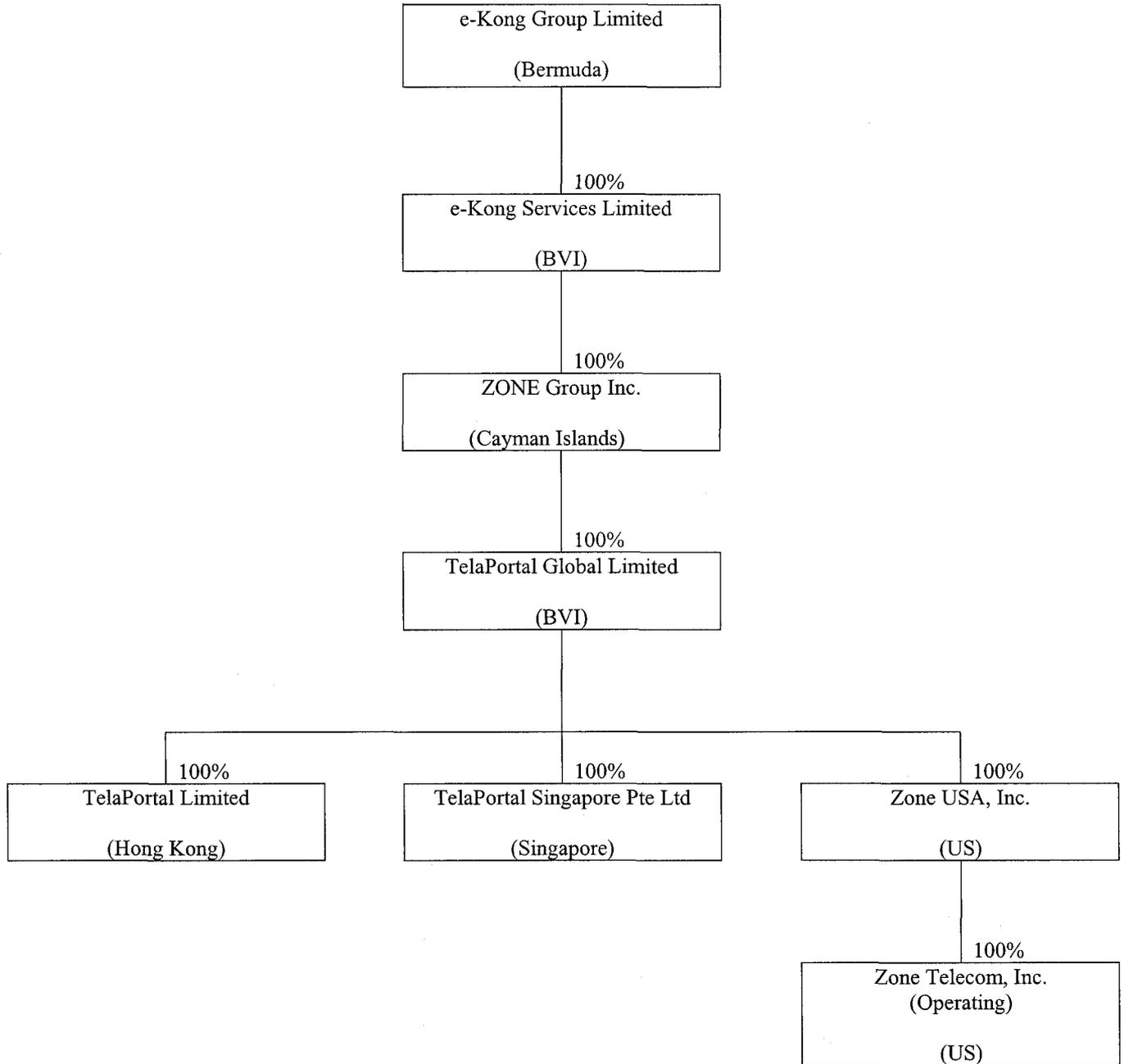
ATTACHMENT A

STOCKHOLDER, OFFICERS AND DIRECTORS OF ZONE TELECOM, INC.

The sole stockholder of Zone Telecom, Inc. is Zone USA, Inc. A chart of the ownership structure of Zone Telecom, Inc. is attached hereto.

The officers and director of Zone Telecom, Inc. are: Derrick Bulawa, President, Chief Executive Officer and Director; Lawton Bloom, Vice President and Secretary; Jeffrey Cheng, Chief Financial Officer and Treasurer; and Steven D. Pohl, Assistant Secretary.

**CHART OF OWNERSHIP STRUCTURE OF ZONE TELECOM,
INC.**



ATTACHMENT B

PROPOSED TARIFF OF ZONE TELECOM, INC.

Interexchange Service Tariff

NAMING RATES FOR

RESALE COMMON CARRIER SERVICE

AS

VALUE ADDED COMMON CARRIER

Applying to Intrastate Resale Common Carrier
Communications Services Between Points in the
State of Arizona

And

CONTAINING RULES AND REGULATIONS

GOVERNING SERVICE

Issued: August 24, 2000

Effective: August 24, 2000

By:

Lawton Bloom
Vice President & Secretary
Zone Telecom, Inc.
279 Harvard Street, Suite 21
Cambridge, MA 02139

Interexchange Service Tariff

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Issued: August 24, 2000**Effective: August 24, 2000****By:**

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Interexchange Service Tariff

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EXPLANATION OF SYMBOLS

- (C) - To signify changed conditions or regulation
- (D) - To signify discontinued rate, regulation or condition
- (I) - To signify increase
- (L) - To signify that material has been transferred to another sheet or place in the tariff
- (M) - To signify that material has been transferred from another sheet of place in the tariff
- (N) - To signify new rate, regulation, condition or sheet
- (O) - To signify no change*
- (R) - To signify reduction
- (T) - To signify a change in text for clarification

* The use of the symbol "O" shall be discretionary unless its use in the interest of clarity is evident or specifically requested by the Commission.

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CONCURRING CARRIERS

NONE

CONNECTING CARRIERS

NONE

OTHER PARTICIPATING CARRIERS

NONE

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Interexchange Service Tariff

APPLICATION OF TARIFF

This tariff contains the regulations and rates applicable to the furnishing of intrastate resale common carrier communication service by Zone Telecom, Inc. between various locations within the State of Arizona.

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DEFINITIONS

AUTHORIZATION CODE: A numerical code, one or more of which are available to a customer to enable identification of individual users or groups of users on an account and to allocate the costs of service accordingly.

CARRIER: Zone Telecom, Inc., or Zone, a switchless reseller utilizing the facility of an underlying carrier.

COMMISSION: The Arizona Corporation Commission.

CUSTOMER: The person, firm, corporation or other entity which orders or uses service and is responsible for payment of charges and compliance with tariff regulations.

INTERLATA TOLL CALL: Any call terminating beyond the LATA of the originating caller.

INTRALATA TOLL CALL: Any call terminating within the LATA of the originating caller.

LATA: Local Access and Transport Area

LOCAL CALL: Calls placed within the Local Exchange Carrier franchise area or EAS area. Local calls will be routed to the LEC and not be handled by the carrier.

MEASURED SERVICE: The provision of intrastate long distance measured time communications telephone service to customers who access the carrier's service through the underlying carrier switching and call processing equipment by means of access facilities obtained from a local exchange common carrier. Carrier is responsible for arranging for the access lines.

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ZONE OR ZONE TELECOM: Used throughout this tariff to mean Zone Telecom, Inc.

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REGULATIONS1. DESCRIPTIONS OF SERVICES

- a. Carrier is a resale common carrier providing intrastate communications long distance message toll telecommunication service to customer for their direct transmission and reception of voice, data, and other types of communications.
- b. Service is offered to business Customers and is available on a presubscription basis from equal access originating end offices only. When a Customer elects to use Calling Card service, calls may be initiated from any location from which the caller can dial the appropriate access codes.
- c. At additional cost, and subject to availability, the customer may use authorization codes to identify the users or user groups on an account. The numerical composition of such codes shall be set by the carrier to assure compatibility with carrier's accounting and automation systems and to avoid duplication of codes.

2. SERVICE OFFERINGS

- a. Virtual Wats Service: Virtual Wats Service is a resold telecommunications service utilizing AT&T as the underlying carrier. This service includes such features as outbound switched and dedicated calling, inbound (800 or 888) switched and dedicated calling, calling card calling and directory assistance services.

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- b. FiberWats Service: FiberWats Service is a resold telecommunications service utilizing Sprint as the underlying carrier. This service includes such features as outbound switched and dedicated calling, inbound (800 or 888) switched and dedicated calling, calling card calling and directory assistance services.
- c. Outbound: Communications may originate from areas served by any equal access central office within the State of Arizona. All services are available twenty four hours per day, seven days per week.
- d. Inbound Switched Service (800 or 888): Receives inbound Intrastate calls on regular local telephone lines.
- e. Inbound Dedicated Service (800 or 888): Allows inbound Intrastate calls to come in on same Dedicated Access Line using 800 or 888 number(s).
- f. Prepaid Telephone Card Service: Zone Telecom, Inc. Prepaid Telephone Card Service provides a voice grade communications service for calls charged to a Zone Telecom Prepaid Telephone Card. Customers can use the Prepaid Telephone Card to complete Direct Dialed intrastate and interstate calls.
- g. Employee Concessions - Any employee of the Company in good standing for three months or longer may receive any of the Company's services 25% below the tariffed rate as a concession.
- h. Prepaid Long Distance Service: Zone prepaid long distance service is an optional 1+/011+ direct dial

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long distance service wherein customers submit payments in advance.

3. TIMING OF CALLS

- 3.1 Long distance usage charges are based on the actual usage of Zone Telecom's network. The Company will determine that a call has been established through industry standard answer detection methods, including hardware answer detection.
- 3.2 Chargeable time for a call ends upon disconnection by either party.
- 3.3 For billing provided directly by the Company, the minimum call duration and initial period is 18 seconds for all intrastate direct dialed calls unless otherwise specified by this tariff. For billing provided directly by the Company, the additional period is measured and rounded to the next higher 6 second increment unless otherwise specified by this tariff.
- 3.4 For billing provided by the Local Exchange Carrier of the Customer, the minimum call duration and initial period is 60 seconds (1 minute) and the additional period is measured in 60 second (1 minute) increments.
- 3.5 No charges apply for incomplete calls. If a Customer believes he or she has been incorrectly billed for an incomplete call, the Company will, upon written notification, investigate the circumstances of the call and issue a credit when appropriate.

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4. LIMITATIONS OF SERVICE

- a. Service is offered subject to the availability of the necessary facilities and / or equipment and subject to the provisions of this tariff. The carrier reserves the right not to provide service to or from a location where the necessary facilities or equipment are not available.
- b. The carrier reserves the right to discontinue furnishing service upon written notice, when necessitated by conditions beyond its control or when the customer is using the service in violation of the provisions of this tariff, or in violation of the law.

5. USE OF SERVICE

- a. Service may be used for the transmission of communications by the customer.
- b. Service may not be used for any unlawful purpose or for any purpose for which any payment or other compensation is received by the customer, except when the customer is a duly authorized and regulated common carrier. This provision does not prohibit an arrangement between the customer, authorized user or joint user to share the cost of the service so long as the arrangement generates no profit for any participant in the arrangement.

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6. PAYMENT AND BILLING

- a. Service is provided and billed on monthly (30 day) basis. Service continues to be provided until customer chooses a new long distance carrier.
- b. The customer is responsible for payment of all charges for services furnished to the customer. Charges are based on actual usage during a month and will be billed monthly in arrears.
- c. Billing will be payable upon receipt and past due by the 20th of the following month. A 1 1/2% late charge is applied to all overdue balances.
- d. The name(s) of the customer(s) desiring to use the service must be set forth in the application for service.

7. MINIMUM SERVICE PERIOD

There is no minimum service period.

8. CANCELLATION BY CUSTOMER

If the Customer orders service requiring special facilities dedicated to the Customer's use and then cancels the order before the service begins or before the completion of a minimum period mutually agreed upon by the Customer and the Carrier, and if based on such an order, construction has either begun or been completed, but no service provided, the nonrecoverable cost of such construction shall be borne by the Customer.

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9. CANCELLATION BY CARRIER

9.1 Without incurring liability, Zone may, upon notice to the customer, discontinue services to a Customer or may withhold the provision of ordered or contracted services:

- (A) For nonpayment of any sum due Zone for more than thirty days after issuance of the bill for the amount due,
- (B) For violation of any of the provisions of this tariff,
- (C) For violation of any law, rule, regulation or policy of any governing authority having jurisdiction over the Company's services, or
- (D) By reason of any order or decision of a court, commission or federal regulatory body or other governing authority prohibiting Zone from furnishing its services.

9.2 Without incurring liability, Zone may interrupt the provision of services at any time in order to perform tests and inspections to assure compliance with tariff regulations and the proper installation and operation of Customer and Company's equipment and services and may continue such interruption until any items of non-compliance or improper equipment operation so identified and rectified.

9.3 Service may be discontinued by Zone, without notice to the Customer, by blocking traffic to certain countries,

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cities or NXX exchanges, or by blocking calls using a call screening method which generates a network message not allowing calls to complete, when Zone deems it necessary to take such action to prevent unlawful use of its service. Zone will restore service as soon as it can be provided without undue risk.

10. RESTORATION OF SERVICE

The use and restoration of service in emergencies shall be in accordance with Part 64, Subpart D of the Federal Communications Commission's Rules and Regulations, which specifies the priority system for such activities.

11. CONTESTED CHARGES

For consideration of any disputed charge, a user must submit in writing to Zone Telecom, Inc. within 30 days of the date the bill is issued, the call details and the basis for any requested adjustment. Zone will promptly investigate and advise the user as to its findings and disposition. Any undisputed charges must be paid on a timely basis.

12. LIABILITIES

- a. All state and local taxes (e.g., gross receipts tax, sales tax, municipal utilities tax) are billed separately from the quoted rates.
- b. The liability of the carrier for damages arising out of mistakes, omissions, interruptions, delays, errors or defects in transmission occurring in the course of furnishing service or other facilities and not caused by the negligence of the customer, commences upon

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activation of service and in no event exceeds an amount equivalent to the proportionate charge to the customer for the period of service during which such mistakes, omissions, interruptions, delays, errors or defects in transmission occur. For the purpose of computing such amount, a month is considered to have 30 days.

- c. The carrier is not liable for any act or omission of any other company or companies furnishing a portion of the service.
- d. The carrier shall be indemnified and held harmless by the customer against:
 - 1) Claims for libel, slander, infringement of copyright or unauthorized use of any trade mark, trade name or service mark arising out of the material, data, information, or other content transmitted over the carrier's facilities; and
 - 2) Claims for patent infringement arising from combining or connecting the carrier's facilities with apparatus and systems of the customer; and
 - 3) All other claims arising out of any act or omission of the customer in connection with any service provided by the carrier.
- e. The carrier shall not be liable for and the customer indemnifies and holds the carrier harmless from any and all loss claims, demands, suits, or other action or liability whatsoever, whether suffered, made, instituted or asserted by the customer to be any other party or persons, for any personal injury to, or death

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of, any person or persons, and for any loss, damage, defacement or destruction of the premises of the customer or any other property, whether owned by the customer or others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal, presence, condition, location or use of equipment or wiring provided by the carrier where such installation, operation, failure to operate, maintenance, condition, location or use is not the direct result of the carrier's negligence. No agents or employees of other carriers shall be deemed to be agents or employees of the carrier.

- f. Zone shall not be held liable to any customer, authorized user or third party for failures caused by the transition to the Year 2000. Zone has, and will continue to make diligent efforts to ensure that our customer's receive the service specified in this tariff before, during and after the Year 2000. Due to Zone's reliance on the equipment and facilities of other companies and their processes, Zone shall not be held responsible for damages of any nature, including consequential damages due to, but not limited to, failures or interruptions to systems, switches, transmission facilities, computers and related equipment maintained by, provided by, or operated by either Zone or other third parties including, but not limited to underlying carriers, local exchange companies, customers and other competitors. Information contained on Zone's website and/or information provided to parties upon request regarding the Year 2000 readiness of products and services offered by Zone are "Year 2000 Readiness Disclosures"

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as defined by the Year 2000 Information and Readiness Disclosure Act of 1998 (Public Law 105-271, 112 Stat. 2386, A U.S. Statute) enacted on October 19, 1998.

13. DEPOSITS

The Company does not require a deposit from the Customer.

14. MISCELLANEOUS CHARGES

a. Payphone Use Surcharge

An undiscountable payphone use surcharge of \$.35 shall apply to each coinless call Zone can identify as being placed from a domestic payphone by or to the customer or permitted users. This includes, but is not limited to, calls placed with a Zone calling card, pre-paid calling card, collect calls and calls placed to 800 numbers. This charge is in addition to standard tariffed usage charges and is for the use of the payphone instrument to access Zone's service.

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Interexchange Service Tariff

RATES AND CHARGES FOR VIRTUAL WATS SUBSCRIBER SERVICE

1. GENERAL

Each customer is charged individually for each call placed through the Company. Charges are computed on an airline mileage basis as described in Calculation of Distance in this tariff.

Rates vary by mileage band, time of day and call duration.

Customers are billed based on their use of Zone Telecom, Inc. long distance service. Unless specified in the service description section of this tariff, no installation charges apply.

2. TIME OF DAY RATE PERIODS

The appropriate rates apply for day, evening and night/weekend calls based on the following chart.

	MON	TUES	WED	THURS	FRI	SAT	SUN
8:00 AM TO 5:00 PM*	DAYTIME RATE PERIOD						
5:00 PM TO 11:00 PM*	EVENING/NIGHT/WEEKEND RATE PERIOD						
11:00 PM TO 8:00 AM*							

* to, but not including

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RATES AND CHARGES FOR VIRTUAL WATS SUBSCRIBER SERVICE (continued)

3. CALCULATION OF DISTANCE

Usage charges for all mileage sensitive products are based on the airline distance between rate centers associated with the originating and terminating points of the call. The airline mileage between rate centers is determined by applying the formula below to the vertical and horizontal coordinates associated with the rate centers involved. Zone Telecom, Inc. uses the rate centers and associated vertical and horizontal coordinates that are produced by Bell Communications Research in their NPA-NXX V & H Coordinates Tape and NECA Tariff FCC No. 4.

FORMULA: 2

$$\sqrt{\frac{(V1 - V2)^2 + (H1 - H2)^2}{10}}$$

4. HOLIDAY RATES

The evening rate applies to the following holidays unless a lower rate would normally apply.

New Year's Day	-	January 1
Independence Day	-	July 4
Labor Day	-	As nationally observed
Thanksgiving Day	-	As nationally observed
Christmas Day	-	December 25
Memorial Day	-	As nationally observed

Issued: August 24, 2000

Effective: August 24, 2000

By:

Lawton Bloom
 Vice President & Secretary
 Zone Telecom, Inc.
 279 Harvard Street, Suite 21
 Cambridge, MA 02139

Interexchange Service Tariff

RATES AND CHARGES FOR VIRTUAL WATS SUBSCRIBER SERVICE (continued)

5. OUTBOUND ONE-PLUS SERVICE

A. Outbound: Schedule A - This schedule applies to calls between two on-network stations which use local exchange service access lines or between an on-network station which uses a local exchange service access line and an off-network station in the State of Arizona.

Calls are billed in 6 second increments with 18 seconds minimum, except for Local Exchange Company billing which will be in 60 second (1 minute) increments [see Page 8, Section 3.3.4 of this tariff]. The 60 second (1 minute) rate is 10 times the 6 second increments shown below.

RATES

InterLATA

Rate <u>Mileage</u>	Initial 18 Seconds <u>or Fraction</u>		Each Additional 6 Seconds <u>or Fraction</u>	
	<u>Day</u>	<u>Evening/Night Weekend</u>	<u>Day</u>	<u>Evening/Night Weekend</u>
0 +	\$0.0678	\$0.0474	\$0.0226	\$0.0158

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Interexchange Service Tariff

RATES AND CHARGES FOR VIRTUAL WATS SUBSCRIBER SERVICE (continued)

IntraLATA

Rate Mileage	Initial 18 Seconds <u>or Fraction</u>		Each Additional 6 Seconds <u>or Fraction</u>	
	<u>Day</u>	<u>Evening/Night Weekend</u>	<u>Day</u>	<u>Evening/Night Weekend</u>
0 +	\$0.0678	\$0.0474	\$0.0226	\$0.0158

* Recurring monthly service charge - \$5.00

B. Outbound: Schedule B - This schedule applies to calls between on-network station which uses a special access line and either an on-network station that uses a local exchange service access line or an off-network station in the State of Arizona.

RATES

InterLATA

Rate Mileage	Initial 18 Seconds <u>or Fraction</u>		Each Additional 6 Seconds <u>or Fraction</u>	
	<u>Day</u>	<u>Evening/Night Weekend</u>	<u>Day</u>	<u>Evening/Night Weekend</u>
0 +	\$0.0483	\$0.0336	\$0.0161	\$0.0112

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Interexchange Service Tariff

RATES AND CHARGES FOR VIRTUAL WATS SUBSCRIBER SERVICE (continued)

IntraLATA

<u>Rate</u> <u>Mileage</u>	<u>Initial 18 Seconds</u> <u>or Fraction</u>		<u>Each Additional 6 Seconds</u> <u>or Fraction</u>	
	<u>Day</u>	<u>Evening/Night</u> <u>Weekend</u>	<u>Day</u>	<u>Evening/Night</u> <u>Weekend</u>
0 +	\$0.0483	\$0.0336	\$0.0161	\$0.0112

* Recurring monthly service charge - \$20.00

6. CALLING CARD RATES

Calls are billed in 6 second increments with 18 seconds minimum, except for Local Exchange Company billing which will be in 60 second (1 minute) increments [see Page 8, Section 3.3.4 of this tariff]. The 60 second (1 minute) rate is 10 times the 6 second increments shown below.

<u>Rate</u> <u>Mileage</u>	<u>Initial 18 Seconds</u> <u>or Fraction</u>		<u>Each Additional 6 Seconds</u> <u>or Fraction</u>	
	<u>Day</u>	<u>Evening/Night</u> <u>Weekend</u>	<u>Day</u>	<u>Evening/Night</u> <u>Weekend</u>
0 +	\$0.0732	\$0.0512	\$0.0244	\$0.0171

* Service charge per call - \$0.65

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Interexchange Service Tariff

RATES AND CHARGES FOR VIRTUAL WATS SUBSCRIBER SERVICE (continued)

7. LONG DISTANCE DIRECTORY ASSISTANCE

A Long Distance Directory Assistance charge applies when the caller accesses the Company's network by dialing 1 + Area Code + 555-1212 to place a request for a telephone number. The charge applies to each inquiry regardless of whether the Directory Assistance bureau is able to supply a listed number. A credit allowance will be provided upon request for any directory assistance charge for which the Customer experiences poor transmission quality, is cut off, receives an incorrect telephone number, or misdials.

	Per Inquiry
Directory Assistance Charge -	\$0.60

8. INBOUND (800 or 888) USAGE RATES

a. Inbound (800 or 888) Switched Usage Rates

	Rate Per Hour of Usage		
	<u>Day</u>	<u>Evening</u>	<u>Night</u>
	\$13.20	\$12.00	\$10.80
	Monthly recurring service charge		\$20.00

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Interexchange Service Tariff

RATES AND CHARGES FOR VIRTUAL WATS SUBSCRIBER SERVICE (continued)

b. Inbound (800 or 888) Dedicated Usage Rates

	Rate Per Hour of Usage		
Day	Evening	Night	
\$9.71	\$7.87	\$6.57	
Monthly recurring service charge		\$50.00	

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Interexchange Service Tariff

RATES AND CHARGES FOR FIBERWATS SUBSCRIBER SERVICE

1. GENERAL

Each Customer is charged individually for each call placed through the Company. Charges are computed on an airline mileage basis as described in Calculation of Distance in this tariff.

Rates vary by mileage band, time of day and call duration.

Customers are billed based on their use of Zone Telecom, Inc. long distance service. Unless specified in the service description section of this tariff, no installation charges apply.

2. TIME OF DAY RATE PERIODS

The appropriate rates apply for day, evening and night/weekend calls based on the following chart.

	MON	TUES	WED	THURS	FRI	SAT	SUN
8:00 AM TO 5:00 PM*	DAYTIME RATE PERIOD						
5:00 PM TO 11:00 PM*	EVENING/NIGHT/WEEKEND RATE PERIOD						
11:00 PM TO 8:00 AM*							

*to, but not including

Issued: August 24, 2000

Effective: August 24, 2000

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 Zone Telecom, Inc.
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 Cambridge, MA 02139

Interexchange Service TariffRATES AND CHARGES FOR FIBERWATS SUBSCRIBER SERVICE (continued)3. CALCULATION OF DISTANCE

Usage charges for all mileage sensitive products are based on the airline distance between rate centers associated with the originating and terminating points of the call. The airline mileage between rate centers is determined by applying the formula below to the vertical and horizontal coordinates associated with the rate centers involved. Zone Telecom, Inc. uses the rate centers and associated vertical and horizontal coordinates that are produced by Bell Communications Research in their NPA-NXX V & H Coordinates Tape and NECA Tariff FCC No. 4.

FORMULA:

$$2 \sqrt{\frac{(V1 - V2)^2 + (H1 - H2)^2}{10}}$$

4. HOLIDAY RATES

The evening rate applies to the following holidays unless a lower rate would normally apply.

New Year's Day	-	January 1
Independence Day	-	July 4
Labor Day	-	As nationally observed
Thanksgiving Day	-	As nationally observed
Christmas Day	-	December 25
Memorial Day	-	As nationally observed

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Interexchange Service Tariff

RATES AND CHARGES FOR FIBERWATS SUBSCRIBER SERVICE (continued)

5. OUTBOUND ONE - PLUS SERVICE

A. Outbound: Schedule A - This schedule applies to calls between two on-network stations which use local exchange service access lines or between an on-network station which uses a local exchange service access line and an off-network station in the State of Arizona.

Calls are billed in 6 second increments with 18 seconds minimum, except for Local Exchange Company billing which will be in 60 second (1 minute) increments [see Page 8, Section 3.3.4 of this tariff].
The 60 second (1 minute) rate is ten (10) times the 6 second increments shown below.

RATES

InterLATA

<u>Rate</u> <u>Mileage</u>	<u>Initial 18 Seconds</u> <u>or Fraction</u>		<u>Each Additional 6 Seconds</u> <u>or Fraction</u>	
	<u>Day</u>	<u>Evening/Night</u> <u>Weekend</u>	<u>Day</u>	<u>Evening/Night</u> <u>Weekend</u>
0+	\$0.0612	\$0.0612	\$0.0204	\$0.0204

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Interexchange Service Tariff

RATES AND CHARGES FOR FIBERWATS SUBSCRIBER SERVICE (continued)

IntraLATA

Rate <u>Mileage</u>	Initial 18 Seconds <u>or Fraction</u>		Each Additional 6 Seconds <u>or Fraction</u>	
	<u>Day</u>	Evening/Night <u>Weekend</u>	<u>Day</u>	Evening/Night <u>Weekend</u>
0+	\$0.0435	\$0.0435	\$0.0145	\$0.0145
	Recurring monthly service charge - \$5.00			

- B. Outbound: Schedule B - This schedule applies to calls between an on-network station which uses a special access line and either an on-network station which uses a local exchange service access line or an off-network station in the State of Arizona.

RATES

InterLATA

Rate <u>Mileage</u>	Initial 18 Seconds <u>or Fraction</u>		Each Additional 6 Seconds <u>or Fraction</u>	
	<u>Day</u>	Evening/Night <u>Weekend</u>	<u>Day</u>	Evening/Night <u>Weekend</u>
0+	\$0.0339	\$0.0339	\$0.0113	\$0.0113

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Interexchange Service Tariff

RATES AND CHARGES FOR FIBERWATS SUBSCRIBER SERVICE (continued)

IntraLATA

Rate <u>Mileage</u>	Initial 18 Seconds <u>or Fraction</u>		Each Additional 6 Seconds <u>or Fraction</u>	
	<u>Day</u>	<u>Evening/Night Weekend</u>	<u>Day</u>	<u>Evening/Night Weekend</u>
0+	\$0.0339	\$0.0339	\$0.0113	\$0.0113

Monthly access fees and service charges vary by Customer location and may be assessed by the Local Telephone Company or underlying carrier. These may be billed directly to the Customer by the Local Telephone Company or at the Customer's request, by Zone Telecom with no mark up from actual cost.

6. CALLING CARD RATES

Calling Card calls placed by Customers that have subscribed to Zone's calling card service prior to the date of this filing will be billed in 6 second increments with 18 seconds minimum. Calling Card calls placed by Customers that have subscribed to Zone's calling card service as of the date of this filing will be billed in 60 second (1 minute) increments. Local Exchange Company billing will be in 60 second (1 minute) increments [see Page 8, Section 3.3.4 of this tariff]. The 60 second (1 minute) rate, which applies to Local Exchange Company billing and to calls placed by Customers that have subscribed to Zone's calling card service as of the date of this filing, is ten (10) times the 6 second increments shown below.

Issued: August 24, 2000

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Interexchange Service Tariff

RATES AND CHARGES FOR FIBERWATS SUBSCRIBER SERVICE (continued)

<u>Rate</u> <u>Mileage</u>	<u>Initial 18 Seconds</u> <u>or Fraction</u>		<u>Each Additional 6 Seconds</u> <u>or Fraction</u>	
	<u>Day</u>	<u>Evening/Night</u> <u>Weekend</u>	<u>Day</u>	<u>Evening/Night</u> <u>Weekend</u>
0+	\$0.0627	\$0.0627	\$0.0209	\$0.0209

Service charge per call \$0.55

7. LONG DISTANCE DIRECTORY ASSISTANCE

A long distance Directory Assistance charge applies when the caller accesses the Company's network by dialing 1 + Area Code + 555-1212 to place a request for a telephone number. The charge applies to each inquiry regardless of whether the Directory Assistance bureau is able to supply a listed number. A credit will be issued for any Directory Assistance charge for which the customer experiences poor transmission quality, is cut off, receives an incorrect telephone number, or misdials.

	<u>Per Inquiry</u>
Directory Assistance Charge -	\$0.75

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Interexchange Service Tariff

RATES AND CHARGES FOR FIBERWATS SUBSCRIBER SERVICE (continued)

8. INBOUND (800 or 888) USAGE RATES

a. Inbound (800 or 888) Switched Usage Rates

Rate <u>Per Hour of Usage</u>		
<u>Day</u>	<u>Evening</u>	<u>Night</u>
\$12.54	\$12.54	\$12.54
Monthly recurring service charge		\$20.00

b. Inbound (800 or 888) Dedicated Usage Rates

Rate <u>Per Hour of Usage</u>		
<u>Day</u>	<u>Evening</u>	<u>Night</u>
\$7.98	\$7.98	\$7.98
Monthly recurring service charge		\$50.00

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Interexchange Service Tariff

COMMERCIAL AFFILIATION PROGRAM**1. GENERAL**

This section contains the regulations applicable to the Commercial Affiliation Program. (see section 4 following for applicable rates)

2. AVAILABILITY OF SERVICE

The following rates apply to residential and small business customers. To qualify for this service, Customers must be members of trade associations or commercial organizations. Customers may also qualify if they are individuals within an industry profession or business classification. Service shall be obtained by responding to an advertisement or promotional offering or by calling a toll free number in response to such solicitation.

3. APPLICATION OF CHARGES

Customers of this calling plan may place as many calls as desired at the specified rates. No minimum monthly usage is required.

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Interexchange Service Tariff

COMMERCIAL AFFILITATION PROGRAM (continued)

4. RATES AND CHARGES

The following rates apply for all times of day, seven days a week, for all distances. Calls will be billed at 18 second initial increment with 6 second additional increments.

<u>Rate</u> <u>Mileage</u>	<u>Initial 18 Seconds</u> <u>or Fraction</u>		<u>Each Additional 6 Seconds</u> <u>or Fraction</u>	
	<u>Day</u>	<u>Eve/Night</u> <u>Weekend</u>	<u>Day</u>	<u>Eve/Night</u> <u>Weekend</u>
0+	\$0.0423	\$0.0423	\$0.0141	\$0.0141
	Monthly Recurring Fee		\$2.00	

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Interexchange Service Tariff

ZONE TELECOM PREPAID TELEPHONE CARD MAXIMUM RATES

	Maximum Rate per Minute of Usage		
Day	Evening	Night	
\$0.35	\$0.35	\$0.35	

ZONE TELECOM SPECIAL PROMOTIONAL OFFERINGS

The company may from time to time engage in special promotional offerings limited to certain dates, times or locations designed to attract new subscribers or increase subscriber usage. The company will not have special promotional offerings for more than 90 days in any 12 month period. In all such cases, the rates charged will not exceed those specified in this Tariff.

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Interexchange Service Tariff

ZONE TELECOM TELECONFERENCE SERVICE1. TELECONFERENCE SERVICE DESCRIPTION

Zone Teleconference Service provides communications between two or more stations connected to an audio bridge with the assistance of a teleconference operator.

2. BILLING

Charges accrued by using teleconference service are billed to the telephone number of the originator of the conference call or billed to another number, if it is acceptable to that party.

3. TIMING OF CALLS

3.1 Chargeable time of a conference call begins when all participants are connected and ends for each individual station when that station disconnects.

3.2 Chargeable time for ports joining the conference call already in progress begins when they are connected by a teleconference operator.

4. RATES AND CHARGES

4.1 Charges for teleconference service calls are per minute and per port usage, rounded to the next highest full minute.

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Interexchange Service Tariff

4. RATES AND CHARGES (continued)

4.2 **Dial - In Service:** Each participant dials into the conference via a standard telephone number and pays their own long distance costs. A teleconference operator will ask for the designator of the call and place the participant into the call. The initiating party pays all usage charges for each line.

Dial - In Service Rates

Bridging Usage Rate Per Minute, Per Line, All Time Periods, Domestic Interstate and Intrastate Calling	\$0.21
--	--------

4.3 **Dial - Out Service:** Each participant is called by a teleconference operator and placed into the conference. The initiating party pays all usage charges for each line.

Dial - Out Service Rates

Bridging Usage Rate Per Minute, Per Line, All Time Periods, Domestic Interstate and Intrastate Calling	\$0.39
--	--------

4.4 **800/888 Dial - In:** Participants dial in via an 800/888 number. A teleconference operator will ask for the designated moderator of the call and place the participant into the call. The initiating party pays all usage charges for each line.

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Interexchange Service Tariff

4. RATES AND CHARGES (continued)

800/888 Dial - In

Bridging Usage Rate Per Minute, Per Line, All Time Periods, Domestic Interstate and Intrastate Calling	\$0.39
--	--------

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Interexchange Service Tariff

ZONE PREPAID LONG DISTANCE SERVICE

Zone prepaid long distance service is an optional 1+/011+ direct dial long distance service wherein customers submit payments in advance.

The advance payments are placed in the consumer's account and are depleted as long distance charges, applicable surcharges, regulatory assessments, taxes and fees are accrued. If during any month, the total of charges exceed the monthly advance payments, the customer will hear an announcement that there is no credit available, and the customer will not be able to complete 1+/011+ calls until additional advance payments are received. In addition, several minutes in advance of the depletion of the prepayment, the customer will be advised via announcement. If a consumer does not utilize the full amount of the monthly prepayment, the remaining balance will carry over to subsequent months until the balance is depleted

BILLING

Charges are billed in full minute increments

Rate: \$.25 cents per minute

Monthly recurring fee: There is a \$5.00 waivable monthly fee.

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ATTACHMENT D

FINANCIAL STATEMENTS

Zone Telecom, Inc., the applicant, is a newly-formed corporation that has not yet transacted business in Arizona or other states. Consequently, financial statements have not been generated for Zone Telecom, Inc.

Zone Telecom, Inc. is an indirect wholly-owned subsidiary of e-Kong Group Limited ("e-Kong Group"), a widely-held Bermuda corporation whose stock is listed on the Hong Kong Stock Exchange.

The 1999 Annual Report for e-Kong Group, which includes a consolidated income statement, consolidated statement of recognised gains and losses, balance sheets, and consolidated cash flow statement for the years ending December 31, 1998, and December 31, 1999, is attached hereto.

e-Kong Group Limited

Annual Report

1999

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Corporate Information

BOARD OF DIRECTORS

Executive

Mr. Richard John Siemens (*Chairman*)
Mr. Ong Soon Kiat
Mr. Derrick Francis Bulawa
Mr. Lim Shyang Guey

Non-executive

Mr. Mokhzani Bin Mahathir
Mr. Peng Chian Chua

Independent non-executive

Mr. Ngan Chor Man
Mr. Fung Che Kwong, Peter

AUDIT COMMITTEE

Mr. Ngan Chor Man
Mr. Fung Che Kwong, Peter

COMPANY SECRETARY

Ms. Wang Poey Foon, Angela

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

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

SOLICITORS

Messrs. Angela Wang & Co.
Messrs. Conyers, Dill & Pearman

AUDITORS

Moores Rowland

HONG KONG BRANCH REGISTRARS

Secretaries Limited

PRINCIPAL BANKERS

Bank of China
The Hongkong and Shanghai Banking
Corporation Limited

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of e-Kong Group Limited (the "Company") will be held at Coral Room 2, 3rd Floor, Furama Hotel, 1 Connaught Road, Central, Hong Kong, on Thursday, 1 June 2000 at 2:30 p.m. for the following purposes:

1. to receive and consider the audited financial statements and the reports of directors and auditors for the year ended 31 December 1999;
2. to re-elect retiring directors and to fix their remuneration;
3. to re-appoint Messrs. Moores Rowland as auditors of the Company and to authorise the board of directors to fix their remuneration;
4. as special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"THAT

- (a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase its own shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company which the Company is authorised to repurchase pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting; and

Notice of Annual General Meeting (Cont'd)

(iii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held."

5. as special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"THAT

- (a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period (as hereinafter defined) to make or grant offers, agreements and options which would or might require the exercise of such power 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 paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined) or (ii) an issue of shares under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company, (iii) the exercise of redemption or conversion rights attaching to the non-cumulative convertible redeemable preference shares of HK\$1.00 each in the capital of the Company or (iv) an issue of shares as scrip dividend pursuant to the Bye-laws of the Company from time to time, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution and the said approval shall be limited accordingly; and
- (d) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

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

Notice of Annual General Meeting (Cont'd)

- (ii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting; and
- (iii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held.

"Rights Issue" means an offer of shares open for a period fixed by the directors of the Company to the holders of shares of the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the directors of the Company 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)."

- 6. as special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"**THAT** conditional upon the Resolution No. (4) and (5) set out in the notice convening this meeting being passed, the aggregate nominal amount of the number of shares which are repurchased by the Company after the date of passing of this Resolution (up to a maximum of 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution) shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to Resolution No. (5) set out in the notice convening this Meeting."

- 7. to transact any other business.

By Order of the Board

Wang Poey Foon, Angela
Company Secretary

Hong Kong, 19 April 2000

Notice of Annual General Meeting (Cont'd)

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint a proxy to attend and vote in his stead. A member may appoint a proxy in respect of part only of his holding of shares. A proxy need not be a member of the Company.
2. In case of joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting, whether in person or by proxy, that one of such persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
3. In order to be valid, the form of proxy completed in accordance with the instructions set out herein, together with a power of attorney, if any, under which it is signed, or a notarially certified copy thereof, must be deposited at the Hong Kong Branch Registrars of the Company, Secretaries Limited, of 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 adjourned meeting. The completion and depositing of the form of proxy will not preclude the member from attending the meeting and voting in person, if he/she so wishes. In the event that a member attends the meeting, his form of proxy will be deemed to have been revoked.
4. An explanatory statement containing further details regarding Resolutions 4 to 6 above will be sent to shareholders.
5. The register of members of the Company will be closed from 26 May 2000 to 1 June 2000, both days inclusive, during which period no transfer of shares will be effected.

In order to determine entitlement to attend and vote at the annual general meeting, all transfer of shares accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Registrars, Secretaries Limited of 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration by not later than 4:00 p.m. on 25 May 2000.

Chairman's Statement

It is my pleasure to deliver my first report to you. I assumed the position of Chairman of the Board in January 2000, and have since spent substantial amount of my time with other board members in formulating the Group's direction and strategy for future expansion. Our challenge was to transform the Group into a more diversified enterprise with an emphasis on Internet-related businesses.

The Group has been through a period of transition in 1999. During the year, its existing business continued to suffer from sluggish market conditions and adverse economic environment in Asia. The Group implemented a series of proactive measures with an aim to reallocate its resources and to enable the management to focus more on higher growth Internet-related business. Accordingly, the Group has disposed of its interest in most of its non-performing investments. The disposal and provision resulted in a loss of HK\$65 million, which accounted for most of the loss recorded in 1999.

Turnover of the Group had been affected by a decline in sales of one of our subsidiaries, Colorland Animation Productions Limited, an animation production house in Shenzhen. The production house's profitability had been put under the pressure of accelerated competition and increasingly challenging market environment.

In the past few months, substantial management resources have been placed in creating or acquiring industry convergent service portals, establishing partnerships with companies targeting the Asian Internet market, and making strategic investments in technologies, contents or service providers that can complement the Group's business.

Our mission in the Internet market is to develop a series of clearly branded, scalable and globally portable e-commerce and service portals offering a single point-of-presence for products and services. We aim to remove market barriers of traditional business by creating a business-to-business (B2B) and mass market e-commerce platform on the Internet. Through us, on-line customers can have immediate access to many offerings across a particular sector and they can pick and mix products and services to suit their needs.

We have completed a number of investments between December 1999 and March 2000. These investments were of strategic significance for the Group's continued growth and enhancement of shareholders' value.

The Group has successfully launched a unique service portal, ZONE1511 in March 2000, which is scalable and portable. ZONE1511 offers its users a wide range of local and international IDD carriers at a single source, and enabling the users to select the most competitive prices for their IDD calls.

Chairman's Statement (Cont'd)

The Group's service portals do not rely purely on creative concepts, they are supported by practical business models, feasible real-world operations, existing market demands and real revenue stream. We expect these service portals will bring in substantial revenue for the year 2000.

In 2000, we will launch a number of new service portals targeting different industries, including the insurance and travel service.

In less than six months, the Group's new management has successfully developed a solid business framework, and has established the Group as a prominent Hong Kong-based Internet company with an Asian focus.

In the world of Internet, it is the people that counts for the success of one's business. The management has built up, within a relatively short period of time, a pool of multi-national talents with proven experience and in-depth knowledge in the Internet and information technology industries. The team of experts has become the major driving force behind the Group's rapid expansion and achievements.

We will capitalize on our strengthened cash position (no debt-gearing) and talented management team to enlarge our market share and scale of operations, both through organic expansion and equity acquisition.

Our focus on developing a range of service portals with mass appeal, our partnership with other Internet and technology companies, and our strategic investment in technology, contents and service providers, form an inter-related and balanced business portfolio enabling the Group to benefit from stable recurrent income from a large definable revenue stream, and to leverage on its strategic investment for substantial capital gain. I am, therefore, optimistic about the future prospects of the Group.

Richard John Siemens
Chairman

Hong Kong, 19 April 2000

Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 December 1999.

CHANGE OF NAME

Pursuant to a Special Resolution passed on 10 December 1999 and the approval of the Registrar of Companies of Bermuda on the even date, the name of the Company was changed from Goldtron Holdings Limited to e-Kong Group Limited.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of its principal subsidiaries are set out in note 11 to the financial statements.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to operating loss by principal activities and geographical locations for the year ended 31 December 1999 is as follows:

By activity:

	Turnover <i>HK\$'000</i>	Contribution to operating loss <i>HK\$'000</i>
Sales of animated films	44,210	6,537
Telecommunication services	1,035	(985)
	<u>45,245</u>	5,552
Add: Interest and investments income		1,493
Less: Other operating expenses		<u>(82,215)</u>
Loss before taxation		<u>(75,170)</u>

Report of the Directors (Cont'd)

SEGMENTAL INFORMATION (Cont'd)

By geographical area:

	Turnover HK\$'000	Contribution to operating loss HK\$'000
Hong Kong	1,035	(985)
North/South America	759	131
Europe	31,094	4,576
Australia	12,357	1,830
	<u>45,245</u>	<u>5,552</u>
Add: Interest and investments income		1,493
Less: Other operating expenses		<u>(82,215)</u>
Loss before taxation		<u>(75,170)</u>

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 1999 are set out in the Consolidated Income Statement on page 20.

The directors do not recommend the payment of dividends for the year ended 31 December 1999 (1998: Nil).

GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 51 and 52.

MAJOR CUSTOMERS AND SUPPLIERS

Approximately 69% (1998: 48%) and 98% (1998: 95%) of the Group's total reported revenue were attributable to the largest customer and five largest customers respectively. At no time during the year have the directors, their associates, nor those shareholders which to the knowledge of the directors own more than 5% of the Company's share capital had any interest in the five largest customers.

The percentage of the Group's total expenditure on purchases of goods and services attributable to the Group's five largest suppliers was less than 5% during the year.

Report of the Directors (Cont'd)

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group are set out in note 10 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 21 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Richard John Siemens (Chairman)	(Appointed on 24 January 2000)
Mr. Ong Soon Kiat	
Mr. Derrick Francis Bulawa	(Appointed on 22 October 1999)
Mr. Lim Shyang Guey	(Appointed on 1 October 1999)
Mr. Tan Siak Kwang, Frankie	(resigned on 15 June 1999)

Non-executive directors:

Mr. Mokhzani Bin Mahathir	
Mr. Peng Chian Chua	
Datò Jaffar Mohd Ali	(resigned on 30 August 1999)

Independent non-executive directors:

Mr. Ngan Chor Man	
Mr. Fung Che Kwong, Peter	

In accordance with the Bye-laws of the Company, Mr Ong Soon Kiat, Mr. Derrick Francis Bulawa and Mr. Lim Shyang Guey shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Report of the Directors (Cont'd)

DIRECTORS' INTERESTS IN SHARES

As at 31 December 1999, the directors had the following interests in the share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code")) as recorded in the register maintained pursuant to section 29 of the SDI Ordinance:

Name of directors	Number of shares beneficially held		Number of share options
	Personal interest	Corporate interest	
Ong Soon Kiat	5,000,000	—	9,168,988 (note 1)
Derrick Francis Bulawa	—	—	28,961,235 (note 2)
Lim Shyang Guey	—	—	4,500,000 (note 3)

Notes:

1. 9,168,988 share options have been granted under the Employee Share Option Scheme of the Company which are exercisable at the exercise price of HK\$0.42 per share over the period ending 24 October 2009.
2. 28,961,235 share options have been granted under the Employee Share Option Scheme of the Company during the year, in which 23,961,235 share options are exercisable at the exercise price of HK\$0.42 per share for the period from 25 October 2000 to 24 October 2009; in which 4,750,000 share options are exercisable at the exercise price of HK\$0.49 per share for the period from 16 November 2000 to 24 October 2009, and in which 250,000 share options are exercisable at the exercise price of HK\$0.60 per share for the period from 23 December 2000 to 24 October 2009.
3. 4,500,000 share options have been granted under the Employee Share Option Scheme of the Company which are exercisable at the exercise price of HK\$0.42 per share for the period from 25 October 2000 to 24 October 2009.

Apart from the above, no other contracts of significance to which the Company or any of its subsidiaries was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

ARRANGEMENT TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

The Company has a share option scheme. Details of share options granted to or exercised by the directors during the year and their outstanding options at 31 December 1999 are shown above. Details of the share option scheme of the Company are set out in note 20 to the financial statements.

Report of the Directors (Cont'd)

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than normal statutory compensation.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that as at 31 December 1999, the Company was notified that the following shareholders had an interest of 10% or more of the issued share capital of the Company:

Name	Ordinary shares held	Percentage of total issued shares capital
Goldtron Limited	128,906,172	11.12%

SHARE CAPITAL

Details of movements in the Company's share capital during the year and the purpose of the share issues are set out in note 19 to the financial statements.

PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars regarding the principal subsidiaries of the Company are set out in note 11 to the financial statements.

LIQUIDITY

Working capital of the Group increased from HK\$6,128,000 to HK\$101,406,000 during the year. The increase primarily represents an increase in cash and bank deposits as a result of issuance and placement of new ordinary shares during the year. Cash and bank deposits as at 31 December 1999 were HK\$99,875,000.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

The Group has no bank loans, overdrafts and other borrowings as at 31 December 1999. There was no interest capitalised by the Group during the year.

Report of the Directors (Cont'd)

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

RETIREMENT BENEFITS SCHEME

Details of the Retirement Benefits Scheme are set out in note 6 to the financial statements.

PARTICULARS OF DIRECTORS AND SENIOR MANAGEMENT EXECUTIVES

Brief biographical details of the directors and senior management executives of the Company are set out on pages 16 to 18 under Directors and Senior Management Profile of this Annual Report.

REMUNERATION POLICIES AND EMPLOYEE RELATIONS

As at 31 December 1999, the Group employed approximately 320 full-time employees. All full-time salaried employees except for contract employees are being paid on a monthly basis plus other staff benefits.

Neither the Company nor any of its subsidiaries has established a labour union and is not subject to any collective agreements. The Group has maintained good relationships with its employees and has not experienced any labour disputes. None of the Group's employees is represented by a labour union.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, save and except that the independent non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year.

AUDIT COMMITTEE

Pursuant to the Listing Rules of the Stock Exchange, an audit committee, comprising two independent non-executive directors, namely Mr. Ngan Chor Man and Mr. Fung Che Kwong, Peter, was established in September 1999.

Report of the Directors (Cont'd)

AUDIT COMMITTEE (Cont'd)

By reference to "A guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants, written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the Board of the Company on the same date. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

YEAR 2000 COMPLIANCE

The Group has stated its definition and approach to Year 2000 problem, and reported the status in our 1998 annual report and 1999 interim report.

No reports on Year 2000-induced incidents have been received within the Group during the rollover to Year 2000 or the leap year date of 29 February 2000. The Company and its subsidiaries passed the rollover smoothly without need to activate any contingency procedures.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda although there are no restrictions against such rights under the laws in Bermuda.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Moores Rowland, *Chartered Accountants, Certified Public Accountants*.

On behalf of the Board

Richard John Siemens
Chairman

Hong Kong, 19 April 2000

Directors and Senior Management Profile

Brief biographical details in respect of directors and senior management:

DIRECTORS

Mr. Richard John Siemens, 55, Chairman, joined the Group on 24 January 2000. Mr. Siemens is Chairman and a founding member of Distacom Communications Limited. He has been involved in the telecommunications industry for 26 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 Limited ("Hutchsion") 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 paging strategy.

Mr. Ong Soon Kiat, 51, was firstly appointed as Chairman and Executive Director of the Group in July 1994. He was an executive director in 1999 and stepped down as Chairman of the Group in January 2000. Mr. Ong has extensive business experience in South East Asia and the People's Republic of China ("PRC").

Mr. Derrick Francis Bulawa, 36, joined the Group in September 1999 as Chief Executive Officer and was appointed on 22 October 1999 as executive director. Mr. Bulawa has 15 years of Internet and communications experience in the United States and Asia, with 10 years in Hong Kong. He is responsible for strategic development, as well as the overall executive management of the Group. Before joining the Group, he was one of the early members of Mr. Richard Li's HutchVision team that launched and founded STAR TV, serving as Vice President of Satellite & Technical Operations from 1991. He was promoted to General Manager after News Corporation bought a 63 per cent stake. Mr. Bulawa was then appointed Senior Technical Advisor of the Pacific Century Group, following the sale of the remaining 37 per cent of STAR TV to News Corporation. More recently, Mr. Bulawa was Chief Operating Officer of UNIFI Communications, an Internet-focused venture backed by Singapore Telecom which ranked Number 20 on the 'INC 500' list of fastest growing US-based companies in 1997. Prior to working for STAR TV, he spent six years working for GTE SpaceNet and Contel ASC in the Asian satellite, data and telecommunications sectors. He has a Bachelor of Science degree in Electronic Engineering Technology from the DeVry Institute of Technology in the United States.

Mr. Lim Shyang Guey, 41, was appointed as executive director and Vice-President Corporate Development on 1 October 1999. Mr. Lim is responsible for executing the Group's corporate strategy and looking after major shareholder issues. He has more than 12 years of experience in telecommunications and information technology in various countries including New Zealand, Russia, Malaysia and Singapore. Before joining

Directors and Senior Management Profile (Cont'd)

the Group, he was General Manager of Goldtron Electronics Pte Ltd in Singapore in charge of developing, manufacturing and marketing the company's proprietary telecommunications products, including pagers, GSM cellular phones and DECT cordless phones. Previously, Mr. Lim was Project Director of Goldtron Network Services Pte Ltd, also in Singapore, responsible for managing its telecommunications joint-venture operations in Russia, which provided local telephone, GSM cellular and paging services. Mr. Lim joined Goldtron Network Services Pte Ltd from Telecom New Zealand where he led projects relating to microwave and fibre optics transmission, and broadband cable TV. He has a Bachelor of Engineering and a Master of Engineering degree from the University of Auckland in New Zealand.

Mr. Mokhzani Bin Mahathir, 39, was appointed as non-executive director of the Group in 1999. Mr. Mahathir is the executive chairman of Tongkah Holdings Berhad, a publicly listed company in Malaysia and since 1993, a non-executive director of Goldtron Limited.

Mr. Peng Chian Chua, 55, was appointed as executive director in July 1994 and became a non-executive director of the Group in 1999. Mr. Peng has more than 20 years' working experience in manufacturing with various multinational companies.

Mr. Fung Che Kwong, Peter, 50, was appointed as an independent non-executive director of the Company since 1994. He is a Hong Kong based businessman with almost 20 years' experience in the textile industry.

Mr. Ngan Chor Man, 33, was appointed as an independent non-executive director of the Company since 1997. He is a Hong Kong based businessman with 6 years experience in the information technology and in PRC.

SENIOR MANAGEMENT

Mr. Kim Moon-Tae Grant, 26, joined the Group as Vice-President Business Development in September 1999. Mr. Kim has extensive experience in investment banking, telecommunications and the Internet in both the United States and Asia. He directs the strategy of new businesses and investments for the Group. His previous roles have included Vice President of Operations of UNIFI Communications ("UNIFI") where he managed the company's core Telecommunications, Network Operations, Systems Engineering, Service Fulfilment and Project Management groups. Prior to this, he was Director of Telecommunications and Business Development, where he pioneered and expanded the global data and switching businesses, working closely with some of the world's premier telecommunications carriers and Internet Service Providers. Before UNIFI, Mr. Kim worked with Pacific Century Group, Continental Development Corporation, and Singapore Telecom in various senior management and Mergers & Acquisitions advisory positions. Mr. Kim studied at the Wharton School, Harvard University and Oxford University.

Directors and Senior Management Profile (Cont'd)

Mr. Robbin Wells, 43, joined the Company in October 1999 as Vice-President Technology. Mr. Wells has more than 22 years of technology experience, having extensive experience developing IP networks across North America, Europe and Asia. He was previously Head of Technology for UNIFI Communications, a first-generation IP messaging company, where he designed and expanded its global network to more than 1000 platforms spanning 15 countries. He also served as Senior Technical Advisor to a R&D team of 120 developers focusing on IP and Internet software. Prior to UNIFI, Mr. Wells worked for Prime Computer as Principal Engineer in the Small Systems Group, one of the first companies to market products using Object Oriented Technology. During the 70's and 80's, he was Chief Engineer for W.F. Wood, a pioneer in the use of automated manufacturing technologies.

Ms. Leung Kit-Mee Judy, 36, joined the Group as Vice-President Marketing in January 2000. Ms. Leung has a wealth of experience in the telecommunications industry in Hong Kong especially as it relates to start-up operations. She is responsible for the marketing activities of the Group. Prior to joining the Group, Ms. Leung was one of the founding employees at New T&T, a Hong Kong-based telecommunications company. Throughout her tenure there, she held increasing levels of responsibility all in the marketing area. Most recently she was the Senior Manager of Marketing Promotions where she was responsible for devising promotion strategies, and developing and implementing comprehensive advertising, publicity and promotional programmes. Before New T&T, she was the Public Relations Manager at Hongkong Telecom. Ms. Leung is a graduate of the University of Aston in Birmingham, England with a Masters Degree in Business Administration.

Mr. Cheng Man-For Jeffrey, 35, joined the Company as Chief Financial Officer in October 1999. Mr. Cheng has more than 10 years finance and accountancy experience in PRC, Taiwan and Hong Kong. He is responsible for overall financial management and company secretarial duties of the Group. He was previously Director of Finance at Fax International HK Ltd. Mr. Cheng began his career with KPMG Peat Marwick before joining The Stock Exchange of Hong Kong Limited. Mr. Cheng is a fellow member of the Association of Chartered Certified Accountants (ACCA) and an associate member of the Hong Kong Institute of Company Secretaries (HKICS).

Auditors' Report

To the members

e-Kong Group Limited

(formerly known as Goldtron Holdings Limited)

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 20 to 50 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 1999 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Moores Rowland

Chartered Accountants

Certified Public Accountants

Hong Kong, 19 April 2000

Consolidated Income Statement

For the year ended 31 December 1999

	Note	1999 HK\$'000	1998 HK\$'000
Turnover	3	45,245	54,334
Cost of sales		<u>(23,104)</u>	<u>(20,833)</u>
Gross profit		22,141	33,501
Other revenue	3	1,493	893
Distribution and selling expenses		(480)	(94)
Administrative expenses		(25,283)	(23,840)
Other operating expenses		<u>(8,062)</u>	<u>(5,048)</u>
(Loss)/Profit from operations		(10,191)	5,412
Loss on disposal of subsidiaries		(33,673)	—
Loss on disposal of a jointly controlled entity		(11,284)	—
Loss on associates written off		(4,590)	—
Provision for diminution in value of long-term investments		(15,432)	—
Provision for diminution in value of associates		—	(43,586)
Provision for long-term receivable		—	<u>(17,149)</u>
Loss before taxation	4	(75,170)	(55,323)
Taxation	7	<u>(739)</u>	<u>(1,763)</u>
Loss from ordinary activities after taxation		(75,909)	(57,086)
Minority interests		<u>(2,499)</u>	<u>(6,469)</u>
Net loss attributable to shareholders	8 & 21	<u>(78,408)</u>	<u>(63,555)</u>
Loss per share			
Basic	9	<u>(11.5 cents)</u>	<u>(14.3 cents)</u>

Consolidated Statement of Recognised Gains and Losses

For the year ended 31 December 1999

	<i>Note</i>	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
Exchange reserve released on associates written off	21	36,250	—
Other capital reserve released on associates written off	21	<u>(31,660)</u>	—
Net gains not recognised in the consolidated income statement		4,590	—
Net loss for the year	21	<u>(78,408)</u>	<u>(63,555)</u>
Total recognised losses		(73,818)	(63,555)
Goodwill eliminated directly against reserves	21	<u>(62,761)</u>	—
		<u>(136,579)</u>	<u>(63,555)</u>

Consolidated Balance Sheet

As at 31 December 1999

ASSETS	Note	1999 HK\$'000	1998 HK\$'000
Non-current assets			
Property, plant and equipment	10	10,469	11,380
Intangible assets	12	781	—
Goodwill	13	—	33,673
Interest in a jointly controlled entity	14	—	12,484
Long-term investments	15	4,267	12,642
Investment securities	16	778	—
		<u>16,295</u>	<u>70,179</u>
Current assets			
Inventories	17	595	1,074
Trade receivables		6,888	5,343
Deposits paid		5,643	268
Prepayments and other receivables		2,751	4,341
Due from related companies		—	824
Cash and cash equivalents		99,875	3,556
		<u>115,752</u>	<u>15,406</u>
Current liabilities			
Trade payables		2,342	406
Receipts in advance		6,305	2,723
Accrued charges and other payables		5,591	5,261
Due to a shareholder	18	19	199
Taxation		89	689
		<u>14,346</u>	<u>9,278</u>
Net current assets		<u>101,406</u>	<u>6,128</u>
Total assets less current liabilities		<u>117,701</u>	<u>76,307</u>
Minority interests		<u>(12,441)</u>	<u>(10,739)</u>
NET ASSETS		<u><u>105,260</u></u>	<u><u>65,568</u></u>
CAPITAL AND RESERVES			
Issued capital	19	194,160	181,340
Reserves	21	<u>(88,900)</u>	<u>(115,772)</u>
		<u><u>105,260</u></u>	<u><u>65,568</u></u>

Approved by the Board of Directors on 19 April 2000

Richard John Siemens
Director

Derrick Francis Bulawa
Director

Balance Sheet

As at 31 December 1999

ASSETS	Note	1999 HK\$'000	1998 HK\$'000
Non-current assets			
Property, plant and equipment	10	389	476
Interests in subsidiaries	11	78,117	77,145
Investment securities	16	778	—
		<u>79,284</u>	<u>77,621</u>
Current assets			
Deposits paid		1,515	219
Prepayments and other receivables		887	3,504
Due from related companies		—	824
Cash and cash equivalents		94,016	773
		<u>96,418</u>	<u>5,320</u>
Current liabilities			
Accrued charges and other payables		1,135	2,629
Due to a shareholder	18	19	199
Due to subsidiaries		5,470	16,317
		<u>6,624</u>	<u>19,145</u>
Net current assets/(liabilities)		<u>89,794</u>	<u>(13,825)</u>
NET ASSETS		<u>169,078</u>	<u>63,796</u>
CAPITAL AND RESERVES			
Issued capital	19	194,160	181,340
Reserves	21	(25,082)	(117,544)
		<u>169,078</u>	<u>63,796</u>

Approved by the Board of Directors on 19 April 2000

Richard John Siemens
Director

Derrick Francis Bulawa
Director

Consolidated Cash Flow Statement

For the year ended 31 December 1999

	Note	1999 HK\$'000	1998 HK\$'000
Net cash outflow from operating activities	22	<u>(7,893)</u>	<u>(4,112)</u>
Returns on investments and servicing of finance			
Dividends paid to minority shareholders		(800)	(6,400)
Interest received		995	251
Income from unlisted investments		498	642
Net cash inflow/(outflow) from returns on investments and servicing of finance		<u>693</u>	<u>(5,507)</u>
Taxation			
Hong Kong Profits Tax paid		(369)	(309)
Overseas tax paid		(970)	(1,300)
Tax paid		<u>(1,339)</u>	<u>(1,609)</u>
Investing activities			
Purchase of property, plant and equipment		(1,375)	(3,102)
Purchase of intangible assets		(781)	—
Addition of long-term investments		(10,568)	(3,512)
Proceeds from sale of property, plant and equipment		—	81
Purchase of a subsidiary	24	(2,714)	(2,274)
Purchase of investment securities		(778)	—
Increase in interest in a jointly controlled entity		—	(1,200)
Net cash outflow from investing activities		<u>(16,216)</u>	<u>(10,007)</u>
Net cash outflow before financing activities		<u>(24,755)</u>	<u>(21,235)</u>
Financing	26		
Issue of ordinary shares		121,071	8,076
Capital contributed by minority shareholders		3	—
Expenses on repurchase of Company's own shares		—	(20)
Net cash inflow from financing		<u>121,074</u>	<u>8,056</u>
Increase/(Decrease) in cash and cash equivalents		<u>96,319</u>	<u>(13,179)</u>
Cash and cash equivalents at 1 January 1999		<u>3,556</u>	<u>16,735</u>
Cash and cash equivalents at 31 December 1999		<u><u>99,875</u></u>	<u><u>3,556</u></u>
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		<u><u>99,875</u></u>	<u><u>3,556</u></u>

Notes to the Financial Statements

For the year ended 31 December 1999

1. GENERAL

The Company is a public listed company incorporated in Bermuda and its ordinary shares are listed on The Stock Exchange of Hong Kong Limited.

Its principal activity is investment holding and those of its subsidiaries are set out in note 11 to the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice 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.

Basis of consolidation

The consolidated financial statements incorporate the audited financial statements of the Company and of its subsidiaries for the year ended 31 December 1999. The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal as appropriate. Inter-company balances and transactions within the Group have been eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is eliminated against reserves immediately on acquisition or amortised on a straight-line basis to the income statement over its estimated useful economic life. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration, is credited to reserves.

On the disposal of an investment in a subsidiary, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Subsidiaries

A subsidiary is an enterprise, in which the Company, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors or equivalent governing body. In the Company's balance sheet, investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value.

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. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally recognised as an expense in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the assets.

When the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are discounted to their present values.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives 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% - 20%
Machinery and equipment	10% - 20%
Motor vehicles	20%

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Intangible assets

Intangible assets comprise business assets acquired and are amortised over their estimated useful lives. Business assets include mainly business plans, business contracts, copyrights and other intellectual property rights.

Long-term investments

Long-term investments represent investments in finished animated films, unfinished animated films and licence fee paid for television and home video rights in finished animated films. They are carried at cost, less provisions for any permanent diminution in value deemed appropriate by the directors and amortisation, where appropriate.

Amortisation is provided to write off the cost of the investments in finished animated films and the licence fee paid for television and home video rights in finished animated films over a period of five years.

No amortisation is provided on an unfinished animated film until it is finished and the distribution is started thereof.

Loans receivable and related production facilities agreements that transfer substantially all the rewards and risks of ownership of investment in finished animated films to the Group, other than legal title, are accounted for as long-term investments. At the inception of the above loans, the amount of loans are capitalised and included in long-term investments and amortised over the loans period. Any unamortised balance is written off to the income statement when the economic value of such investment ceases.

Investment 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 values, which is expected to be other than temporary. The amount of provisions is recognised as an expense in the period in which the decline occurs.

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

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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.

Sales of animated films are recognised when films are delivered to the customers and title has passed.

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

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

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

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.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Foreign currencies (Cont'd)

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.

Pension costs

Contributions are recognised as expenses as they become payable in accordance with the rules of the scheme.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable under operating leases are recognised as expenses on the straight-line basis over the lease terms.

Cash equivalents

Cash equivalents in the consolidated cash flow statement 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.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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 as follows:

	Group	
	1999 HK\$'000	1998 HK\$'000
Sales of animated films	44,210	54,334
Telecommunication services income	1,035	—
Turnover	45,245	54,334
Interest income	995	251
Income from unlisted investments	498	642
Other revenue	1,493	893
Revenue	46,738	55,227

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

4. LOSS BEFORE TAXATION

This is stated after charging/(crediting):

	Group	
	1999	1998
	HK\$'000	HK\$'000
Amortisation of goodwill	—	1,772
Amortisation of long-term investments	3,511	2,686
Auditors' remuneration	557	543
Bad debts written off	3,000	—
Cost of inventories	21,773	20,833
Depreciation	3,506	3,367
Loss/(Profit) on disposal of property, plant and equipment	319	(17)
Operating lease charges on premises	3,008	3,678
Staff costs	27,271	23,143
Amount due from a jointly controlled entity waived	1,200	—

5. DIRECTORS' REMUNERATION

	Group	
	1999	1998
	HK\$'000	HK\$'000
Fees	—	—
Salaries, other emoluments and other benefits in kind	2,350	1,560
	<u>2,350</u>	<u>1,560</u>

No fees or emoluments was paid to the independent non-executive directors during the year (1998: Nil).

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

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.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

5. DIRECTORS' REMUNERATION (Cont'd)

The remuneration of directors were within the following bands:

	Number of directors	
	1999	1998
Nil	4	6
1 — 1,000,000	4	—
1,500,001 — 2,000,000	—	1
	<u>8</u>	<u>7</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (1998: one) were directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other two (1998: four) individuals were as follows:

	Group	
	1999 HK\$'000	1998 HK\$'000
Basic salaries	2,540	3,106
Bonuses	300	—
	<u>2,840</u>	<u>3,106</u>

	Number of individuals	
	1999	1998
Nil — 1,000,000	—	3
1,000,001 — 1,500,000	1	1
1,500,001 — 2,000,000	1	—
	<u>2</u>	<u>4</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

6. RETIREMENT BENEFIT COSTS

Set out below are certain particulars regarding the provident fund scheme operated by the Group:

(a) Nature of scheme

The Group currently operates a provident fund scheme. The scheme is available to all employees of the Group. The assets of the scheme are held separately by independently administered funds.

(b) Funding of the scheme

The Group's defined contribution scheme is funded by contributions from employees and employer. The employees and employer contribute respectively to the scheme sums which represent percentages of salaries of the employees as defined under the relevant trust deeds.

(c) Cost of the scheme

The Group's total retirement costs pursuant to the scheme charged to the income statement during the year ended 31 December 1999 amounted to HK\$32,538 (1998: HK\$37,000) after offsetting contributions forfeited of HK\$21,052 (1998: HK\$51,000) by employees during the year. The forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years as at 31 December 1999 amounted to HK\$53,601 (1998: HK\$15,000).

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

7. TAXATION

Hong Kong Profits Tax has been provided for at the rate of 16% (1998: 16%) on the estimated assessable profits for the year.

Overseas taxation represents income tax payable in the Peoples' Republic of China and is calculated at the prevailing rate.

	Group	
	1999 HK\$'000	1998 HK\$'000
The charge comprises:		
Hong Kong Profits Tax:		
Current year	41	351
(Over)/Underprovision in respect of previous year	(21)	32
Overseas taxation	719	1,380
	<u>739</u>	<u>1,763</u>

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

	Group	
	1999 HK\$'000	1998 HK\$'000
Excess of tax allowances over depreciation	187	148
Tax losses (arising)/utilised:		
Acquisition of a subsidiary	(2,579)	—
Current year	(395)	24,077
	<u>(2,787)</u>	<u>24,225</u>

8. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss of the Company dealt with in the consolidated income statement amounted to HK\$70,989,000 (1998: HK\$46,062,000).

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

9. LOSS PER SHARE

The calculation of basic loss per share is based upon the loss attributable to shareholders of HK\$78,408,000 (1998: HK\$63,555,000) and on the weighted average number of ordinary shares of 681,868,558 (1998: 443,194,585) in issue during the year. The 1999 and 1998 diluted loss per share are not shown because the potential ordinary shares would decrease the loss per share and would be regarded as anti-dilutive.

10. PROPERTY, PLANT AND EQUIPMENT

Group	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Leasehold improvement HK\$'000	Office equipment, furniture and fittings HK\$'000	Total HK\$'000
Cost					
At 1 January 1999	2,218	487	800	15,404	18,909
Acquisition of a subsidiary	1,371	—	102	531	2,004
Additions	—	—	269	1,106	1,375
Disposals	—	—	(578)	(518)	(1,096)
At 31 December 1999	3,589	487	593	16,523	21,192
Depreciation					
At 1 January 1999	1,263	248	533	5,485	7,529
Acquisition of a subsidiary	293	—	40	132	465
Charge for the year	184	68	267	2,987	3,506
Disposals	—	—	(466)	(311)	(777)
At 31 December 1999	1,740	316	374	8,293	10,723
Net book value					
At 31 December 1999	1,849	171	219	8,230	10,469
At 31 December 1998	955	239	267	9,919	11,380

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

10. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Company	Leasehold improvement HK\$'000	Office equipment, furniture and fittings HK\$'000	Total HK\$'000
Cost			
At 1 January 1999	443	618	1,061
Additions	33	247	280
Disposals	(476)	(128)	(604)
At 31 December 1999	—	737	737
Depreciation			
At 1 January 1999	288	297	585
Charge for the year	138	122	260
Disposals	(426)	(71)	(497)
At 31 December 1999	—	348	348
Net book value			
At 31 December 1999	—	389	389
At 31 December 1998	155	321	476

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

11. INTERESTS IN SUBSIDIARIES

	Company	
	1999 HK\$'000	1998 HK\$'000
Unlisted shares, at cost	145,696	216,141
Provision for permanent diminution in value	(136,464)	(151,480)
	<u>9,232</u>	<u>64,661</u>
Due from subsidiaries	68,885	23,687
Provision for amount due from a subsidiary	—	(11,203)
	<u>68,885</u>	<u>12,484</u>
	<u>78,117</u>	<u>77,145</u>

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

Name of subsidiary	Country of incorporation and operation	Ordinary share capital issued		Percentage of nominal value of issued capital held by the Company		Principal activities
		Number/amount	Par value per share HK\$	Directly	Indirectly	
Colorland Animation Productions Limited *	Hong Kong	3,250,000	1	—	60%	Investment holding and sales of animated films
Colorland Animation Productions (Shenzhen) Limited *	People's Republic of China	US\$500,000	—	—	60%	Production of animated films
Goldmarket Assets Limited	British Virgin Islands	139,371,568	1	100%	—	Investment holding
magictel.com Limited (formerly known as Magictel Limited)	Hong Kong	1,000	1	—	100%	Provision of telecommunication services
speedinsure.com Limited (formerly known as Cyber Pioneer Limited)	Hong Kong	10,000	1	—	70%	Provision of e-business service portal
TelaPortal Limited (formerly known as Bright Source Limited)	Hong Kong	2	1	—	100%	Provision of e-business service portal

* Companies not audited by Moores Rowland.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

11. INTERESTS IN SUBSIDIARIES (Cont'd)

The above summary lists the principal 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

	Group	
	1999 HK\$'000	1998 HK\$'000
At cost	<u>781</u>	<u>—</u>

13. GOODWILL

	Group	
	1999 HK\$'000	1998 HK\$'000
Cost		
At 1 January	70,445	68,171
Disposals	(70,445)	2,274
At 31 December	<u>—</u>	<u>70,445</u>
Amortisation		
At 1 January	36,772	35,000
Disposals	(36,772)	1,772
At 31 December	<u>—</u>	<u>36,772</u>
Net book value		
At 31 December	<u>—</u>	<u>33,673</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

14. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	1999 HK\$'000	1998 HK\$'000
Share of net assets	—	11,284
Due from a jointly controlled entity	—	1,200
	<u>—</u>	<u>12,484</u>

In 1998, interest in a jointly controlled entity represented 25% equity interest in the registered and paid up capital of Chengdu Hongda Energy Co., Ltd. ("CHE"), a company established in the People's Republic of China. The Group had disposed its interest in CHE to a third party during the year.

15. LONG-TERM INVESTMENTS

Group	Investment in finished animated films HK\$'000	Television and home video rights in finished animated films HK\$'000	Investment in unfinished animated films HK\$'000	Total HK\$'000
1999				
Cost				
At 1 January 1999	16,699	285	539	17,523
Additions	4,269	—	6,299	10,568
Write-off	—	(285)	—	(285)
Transfers	6,838	—	(6,838)	—
Provision for diminution in value	(15,432)	—	—	(15,432)
At 31 December 1999	<u>12,374</u>	<u>—</u>	<u>—</u>	<u>12,374</u>
Amortisation				
At 1 January 1999	4,596	285	—	4,881
Charge for the year	3,511	—	—	3,511
Write-off	—	(285)	—	(285)
At 31 December 1999	<u>8,107</u>	<u>—</u>	<u>—</u>	<u>8,107</u>
Net book value				
At 31 December 1999	<u>4,267</u>	<u>—</u>	<u>—</u>	<u>4,267</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

15. LONG-TERM INVESTMENTS (Cont'd)

Group (Cont'd)

1998	Investment in finished animated films HK\$'000	Television and home video rights in finished animated films HK\$'000	Investment in unfinished animated films HK\$'000	Total HK\$'000
Cost				
At 1 January 1998	11,141	285	2,585	14,011
Additions	2,973	—	539	3,512
Transfers	2,585	—	(2,585)	—
At 31 December 1998	16,699	285	539	17,523
Amortisation				
At 1 January 1998	1,991	204	—	2,195
Charge for the year	2,605	81	—	2,686
At 31 December 1998	4,596	285	—	4,881
Net book value				
At 31 December 1998	12,103	—	539	12,642

16. INVESTMENT SECURITIES

	Group and Company	
	1999 HK\$'000	1998 HK\$'000
At cost, unlisted	778	—

17. INVENTORIES

	Group	
	1999 HK\$'000	1998 HK\$'000
At cost:		
Raw materials	201	240
Work-in-progress	394	834
	595	1,074

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

18. DUE TO A SHAREHOLDER

The amount due to a shareholder, Goldtron Limited, a company incorporated in the Republic of Singapore, is unsecured, interest-free and has no fixed terms for repayment.

19. ISSUED CAPITAL

	1999		1998	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Authorised				
Preference shares of HK\$1 each:				
At 1 January				
and 31 December	<u>288,929,402</u>	<u>288,929</u>	<u>288,929,402</u>	<u>288,929</u>
Ordinary shares of HK\$0.02 each:				
At 1 January	750,000,000	15,000	750,000,000	15,000
Increase of ordinary shares	<u>750,000,000</u>	<u>15,000</u>	—	—
At 31 December	<u>1,500,000,000</u>	<u>30,000</u>	<u>750,000,000</u>	<u>15,000</u>
TOTAL		<u>318,929</u>		<u>303,929</u>
Issued and fully paid				
Preference shares of HK\$1 each:				
At 1 January				
and 31 December	<u>170,970,968</u>	<u>170,971</u>	<u>170,970,968</u>	<u>170,971</u>
Ordinary shares of HK\$0.02 each:				
At 1 January	518,449,380	10,369	434,449,380	8,689
Issue of ordinary shares	631,000,000	12,620	84,000,000	1,680
Exercise of share options	<u>10,000,000</u>	<u>200</u>	—	—
At 31 December	<u>1,159,449,380</u>	<u>23,189</u>	<u>518,449,380</u>	<u>10,369</u>
TOTAL		<u>194,160</u>		<u>181,340</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

19. ISSUED CAPITAL (Cont'd)

- (a) By an ordinary resolution passed at a special general meeting held on 1 September 1999, the authorised ordinary share capital of the Company was increased to HK\$30,000,000 by the creation of an additional 750,000,000 ordinary shares of HK\$0.02 each.
- (b) On 6 September 1999, the Company placed and issued 200,000,000 new ordinary shares of HK\$0.02 each at a price of HK\$0.17 per share. The net proceeds of HK\$32,800,000 are being used for working capital purposes.

Pursuant to a sale and purchase agreement dated 14 September 1999, 240,000,000 new ordinary shares of HK\$0.02 each were allotted and issued at a price of HK\$0.23 per share in consideration of the entire issued share capital of magictel.com Limited, which have become a wholly-owned subsidiary of the Group since then.

On 10 November 1999, the Company placed and issued 190,000,000 new ordinary shares of HK\$0.02 each at a price of HK\$0.45 per share. The net proceeds of HK\$83,300,000 were used for financing the expanding business and providing working capital of the Group.

On 13 December 1999, options were exercised to subscribe for 10,000,000 ordinary shares of HK\$0.02 each in the Company at a consideration of HK\$4,200,000.

Pursuant to an asset acquisition agreement dated 14 December 1999, the Company allotted and issued 1,000,000 new ordinary shares of HK\$0.02 each at a price of approximately HK\$0.778 per share to acquire certain assets from an independent third party.

- (c) The holders of the 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 accordance with the provision of the Company's Bye-laws. In each year the preference shares may be converted on any of the following dates:
 - (i) the date falling 30 days after the date of despatch of the audited financial statements of the Company for the last preceding accounting period to the holders of the preference shares; or
 - (ii) the date falling 30 days after the date on which the interim results of the Company in respect of any current accounting period shall be announced; or

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

19. ISSUED CAPITAL (Cont'd)

- (iii) 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 additions, as resolved by the directors on 16 December 1998, the preference shares may be converted every second Wednesday and last Wednesday of each month provided always that if such is not a business day then the next business day.

The Company may in accordance with the Bermuda Companies Act determine to redeem for a sum equal to (i) the nominal capital paid up or credited as paid up thereon and (ii) a fixed premium equal to five percent of the amount of such nominal capital and (iii) outstanding dividends, on any conversion date 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 shares.

20. SHARE OPTIONS

The Company had in issue the following share options as at the balance sheet date.

Date of options granted	Exercise price HK\$	Number of options outstanding
25 October 1999	0.42	51,630,223
16 November 1999	0.49	6,495,000
23 November 1999	0.60	<u>4,100,000</u>
		<u><u>62,225,223</u></u>

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 grant options to eligible employees to subscribe for shares in the Company. Any options granted can be exercised within the period as set out in the Rules and Regulations for the Scheme. The subscription price 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 shares for the five trading days immediately preceding the date of grant or the nominal value of a share.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

21. RESERVES

Group	Share premium HK\$'000	Exchange reserve HK\$'000	Capital redemption reserve HK\$'000	Other capital reserve HK\$'000	Reserve on consolidation HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 1998	57,580	(35,133)	6	30,573	—	(111,619)	(58,593)
Shares issued at premium	6,720	—	—	—	—	—	6,720
Shares issue expenses	(324)	—	—	—	—	—	(324)
Shares repurchased in 1997	(20)	—	—	—	—	—	(20)
Net loss for the year	—	—	—	—	—	(63,555)	(63,555)
At 31 December 1998	63,956	(35,133)	6	30,573	—	(175,174)	(115,772)
Shares issued at premium	166,858	—	—	—	—	—	166,858
Shares issue expenses	(3,407)	—	—	—	—	—	(3,407)
Release on associates written off	—	36,250	—	(31,660)	—	—	4,590
Goodwill on acquisition of a subsidiary	—	—	—	—	(62,761)	—	(62,761)
Net loss for the year	—	—	—	—	—	(78,408)	(78,408)
At 31 December 1999	<u>227,407</u>	<u>1,117</u>	<u>6</u>	<u>(1,087)</u>	<u>(62,761)</u>	<u>(253,582)</u>	<u>(88,900)</u>
Company							
At 1 January 1998	57,580	—	6	—	—	(135,444)	(77,858)
Shares issued at premium	6,720	—	—	—	—	—	6,720
Shares issue expenses	(324)	—	—	—	—	—	(324)
Shares repurchased in 1997	(20)	—	—	—	—	—	(20)
Net loss for the year	—	—	—	—	—	(46,062)	(46,062)
At 31 December 1998	63,956	—	6	—	—	(181,506)	(117,544)
Shares issued at premium	166,858	—	—	—	—	—	166,858
Shares issue expenses	(3,407)	—	—	—	—	—	(3,407)
Net loss for the year	—	—	—	—	—	(70,989)	(70,989)
At 31 December 1999	<u>227,407</u>	<u>—</u>	<u>6</u>	<u>—</u>	<u>—</u>	<u>(252,495)</u>	<u>(25,082)</u>

There were no reserves available for distribution as at 31 December 1999 (1998: Nil).

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

22. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	1999 HK\$'000	1998 HK\$'000
Loss before taxation	(75,170)	(55,323)
Interest income	(995)	(251)
Income from unlisted investments	(498)	(642)
Depreciation	3,506	3,367
Loss/(Profit) on disposal of property, plant and equipment	319	(17)
Amortisation of long-term investments	3,511	2,686
Bad debts written off	3,000	—
Loss on disposal of subsidiaries	33,673	—
Loss on disposal of a jointly controlled entity	11,284	—
Loss on associates written off	4,590	—
Provision for diminution in value of long-term investments	15,432	—
Amount due from a jointly controlled entity waived	1,200	—
Property, plant and equipment written off	—	206
Amortisation of goodwill	—	1,772
Provision for long-term receivable	—	17,149
Provision for diminution in value of associates	—	43,586
Changes in working capital:		
Inventories	479	1,532
Trade receivables, deposits paid, prepayments and other receivables	(7,895)	62,257
Trade payables, receipts in advance, accrued charges and other payables	(973)	(14,467)
Due from related companies	824	(3,650)
Due to a shareholder	(180)	(61,165)
Exchange difference on long-term receivable and bank balances	—	(1,152)
Net cash outflow from operating activities	(7,893)	(4,112)

23. MAJOR NON-CASH TRANSACTION

Consideration for the purchase of a subsidiary that occurred during the year comprised issuance of ordinary shares. Further details of the acquisition is set out in note 24.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

24. PURCHASE OF A SUBSIDIARY

	1999 HK\$'000	1998 HK\$'000
Net liabilities acquired:		
Property, plant and equipment	1,539	—
Trade receivables, deposits, prepayments and other receivables	435	—
Bank balances and cash	739	—
Trade payables, receipts in advance, accrued charges and other payables	<u>(6,821)</u>	<u>—</u>
	(4,108)	—
Goodwill	<u>62,761</u>	<u>2,274</u>
	<u>58,653</u>	<u>2,274</u>
Satisfied by:		
Shares allotted	55,200	—
Direct costs incurred	<u>3,453</u>	<u>2,274</u>
	<u>58,653</u>	<u>2,274</u>

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

	1999 HK\$'000	1998 HK\$'000
Bank balances and cash acquired	(739)	—
Cash payment for direct costs	<u>3,453</u>	<u>2,274</u>
Net outflow of cash and cash equivalents in respect of the purchase of a subsidiary	<u>2,714</u>	<u>2,274</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

25. DISPOSAL OF SUBSIDIARIES

	1999 HK\$'000	1998 HK\$'000
Net assets disposed	—	—
Unamortised goodwill written off	<u>33,673</u>	—
	<u>33,673</u>	—
Loss on disposal	<u>(33,673)</u>	—
	<u>—</u>	<u>—</u>
Satisfied by:		
Cash	<u>—</u>	<u>—</u>

26. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$'000	Minority interest HK\$'000
At 1 January 1999	74,325	10,739
Cash inflow from financing	121,071	3
Shares issued for non-cash consideration	55,200	—
Share of profit for the year	—	2,499
Dividend paid to minority shareholders	—	<u>(800)</u>
At 31 December 1999	<u>250,596</u>	<u>12,441</u>

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

27. COMMITMENTS

Commitments under operating leases

At the balance sheet date, the portion of outstanding commitments in respect of land and buildings not provided for under non-cancellable operating leases which are payable in the following year is as follow:

	Group		Company	
	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Operating leases which expire:				
Within one year	1,786	1,047	893	730
In the second to fifth years inclusive	1,350	1,233	675	—
	<u>3,136</u>	<u>2,280</u>	<u>1,568</u>	<u>730</u>

Capital expenditure commitments

At the balance sheet date, the Group had the following capital expenditure commitments:

	Group	
	1999 HK\$'000	1998 HK\$'000
Authorised but not contracted for	<u>19,858</u>	<u>—</u>
Contracted but not provided for	<u>9,818</u>	<u>—</u>

28. RELATED PARTY TRANSACTIONS

During the year, the Company paid management fee to a shareholder amounting to HK\$1,500,000 (1998: HK\$2,000,000) pursuant to a management agreement dated 19 September 1994. The agreement was terminated on 30 September 1999 and no further payment was made since then.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

29. DEFERRED TAXATION

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

	Group	
	1999	1998
	HK\$'000	HK\$'000
Excess of tax allowances over depreciation	357	170
Tax losses carried forward	(10,469)	(7,495)
	<u>(10,112)</u>	<u>(7,325)</u>

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.

30. POST BALANCE SHEET EVENTS

(a) Changes in authorised and issued share capital

On 9 February 2000, an aggregate of 72,042,000 preference shares were converted into 72,042,000 ordinary shares of HK\$0.02 each at a price of HK\$1.05 per share.

On 15 and 16 February 2000, the Company placed and issued 200,000,000 new ordinary shares of HK\$0.02 each at a price of HK\$3.6 per share. The net proceeds of HK\$705,000,000 will be used for financing expansion of existing business and providing additional working capital of the Group.

By an ordinary resolution passed at a special general meeting on 1 March 2000, the authorised ordinary share capital of the Company was increased to HK\$60,000,000 by the creation of 1,500,000,000 additional ordinary shares of HK\$0.02 each.

On 29 March 2000, an aggregate of 89,248,968 preference shares were converted into 89,248,968 ordinary shares of HK\$0.02 each at a price of HK\$1.05 per share.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 1999

30. POST BALANCE SHEET EVENTS (Cont'd)

(b) Investments

On 3 February 2000, the Group entered into an agreement with Elmsdale Media Limited ("Elmsdale") for subscribing 357,142 shares in Elmsdale at a consideration of GBP4,000,000 (approximately HK\$49,880,000). The principal activities of Elmsdale is the establishment and operation of worldwide interactive programming and distribution services.

On 9 February 2000, the Group entered into an agreement with SUMmedia.com Inc. ("SUMmedia") for subscribing approximately 3.8% equity interest and 700,000 warrants in SUMmedia at a consideration of US\$3,675,000 (approximately HK\$28,592,000). Each warrant entitled the Group to acquire one share of SUMmedia at a price of US\$7 per share for a period of one year from the date of issue of such warrant. SUMmedia is an Internet media and marketing company that provides online coupons through its eCoupon portal.

Further to the memorandum of understanding entered into by the Group and Space Media Holdings Limited ("Space Media") on 28 December 1999, a formal subscription agreement was entered into by the two parties on 16 February 2000 for acquiring 20% equity interest in Space Media at an aggregate consideration of US\$2,500,000 (approximately HK\$19,450,000). The said consideration has been included in the authorised but not contracted for capital expenditure commitments as disclosed in note 27. Space Media is engaged in the provision of Internet advertising consultancy services.

31. COMPARATIVE FIGURES

Following the adoption of Statements of Standard Accounting Practice 1 and 2 issued by the Hong Kong Society of Accountants, certain comparative figures have been reclassified to conform to current year's presentation.

Summary of the Results and of the Assets and Liabilities of the Group

For the year ended 31 December 1999

	Results of the Group for the five years ended 31 December				
	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000	1996 HK\$'000	1995 HK\$'000
Turnover					
Continuing operations	45,245	54,334	48,557	84,678	64,717
Discontinued operations	—	—	28,160	79,915	25,556
	<u>45,245</u>	<u>54,334</u>	<u>76,717</u>	<u>164,593</u>	<u>90,273</u>
Loss from operations	(75,170)	(55,323)	(56,790)	(8,025)	(16,824)
Share of results of associated companies	—	—	(21,478)	—	—
Loss before taxation	(75,170)	(55,323)	(78,268)	(8,025)	(16,824)
Taxation	(739)	(1,763)	(1,366)	7	(88)
Loss from ordinary activities after taxation	(75,909)	(57,086)	(79,634)	(8,018)	(16,912)
Minority interests	(2,499)	(6,469)	(6,154)	(920)	2,356
Net loss attributable to shareholders	<u>(78,408)</u>	<u>(63,555)</u>	<u>(85,788)</u>	<u>(8,938)</u>	<u>(14,556)</u>
Loss per share					
Basic	<u>(11.5 cents)</u>	<u>(14.3 cents)</u>	<u>(24.4 cents)</u>	<u>(2.8 cents)</u>	<u>(4.7 cents)</u>

Summary of the Results and of the Assets and Liabilities of the Group (Cont'd)

For the year ended 31 December 1999

Assets and liabilities of the Group for the five years ended 31 December

	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000	1996 HK\$'000	1995 HK\$'000
Non-current assets	16,295	70,179	114,797	177,527	409,545
Current assets	115,752	15,406	108,802	79,119	80,447
Total assets	132,047	85,585	223,599	256,646	489,992
<i>Less:</i>					
Non-current liabilities	—	—	5,237	37,342	161,286
Current liabilities	14,346	9,278	86,625	15,917	60,591
Total liabilities	14,346	9,278	91,862	53,259	221,877
	117,701	76,307	131,737	203,387	268,115
<i>Less:</i>					
Minority interests	12,441	10,739	10,670	8,916	56,182
Total net assets	105,260	65,568	121,067	194,471	211,933

ATTACHMENT E

WRITTEN STATEMENT FROM e-KONG GROUP LIMITED

I certify that if the applicant is an Arizona corporation, a current copy of the Articles of Incorporation is on file with the Arizona Corporation Commission and the applicant holds a Certificate of Good Standing from the Commission. If the company is a foreign corporation or partnership, I certify that the company has authority to transact business in Arizona. I certify that all appropriate city, county and/or State agency approvals have been obtained. Upon signing of this application, I attest that I have read the Commission's rules and regulations relating to the regulations of telecommunications services (A.A.C. Title 14, Chapter 2, Article 11) and that the company will abide by Arizona State Law including the Arizona Corporation Commission Rules and Regulations. I agree that the Commission's rules apply in the event there is a conflict between those rules and the company's tariff, unless otherwise ordered by the Commission. I certify that to the best of my knowledge the information provided in this Application and Petition is true and correct.

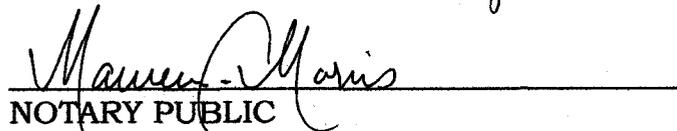

(Signature of Authorized Representative)

8/25/00
(Date)

Lawton Bloom
(Print Name of Authorized Representative)

Vice President
(Title)

SUBSCRIBED AND SWORN to before me this 25th day of August, 2000


NOTARY PUBLIC

My Commission Expires My Commission Expires June 21, 2002

August 18, 2000

Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

**Re: Application and Petition by Zone Telecom, Inc. for
Certificate of Convenience and Necessity to Provide
Intrastate Telecommunications Services as an
Interexchange Reseller**

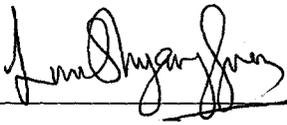
Dear Sirs:

Zone Telecom, Inc. ("Zone"), an applicant for a certificate of convenience and necessity to provide intrastate telecommunications services as an interexchange reseller, is an indirect, wholly-owned subsidiary of e-Kong Group Limited ("e-Kong").

In connection with Zone's application, e-Kong hereby attests that for so long as Zone remains a wholly-owned subsidiary of e-Kong, it will provide complete financial backing if Zone experiences a net loss or business failure to guarantee re-payment of customers' advances, prepayments or deposits held by Zone, if, for some reason, Zone cannot provide service or repay the deposits.

Respectfully submitted,

e-Kong Group Limited

By:  Lim, Shiyang Guay
Its: Director