

# Management Discussion and Analysis

## FINANCIAL RESULTS

Profit attributable to shareholders for the year ended 31 December 2000 was HK\$1.3 million compared with a loss of HK\$78.4 million during the previous year. The Group has successfully turned a profit for the first time since 1994. Earnings per share were substantially improved from a loss of 11.50 cents in 1999 to a profit of 0.09 cent in 2000.

For the year ended 31 December 2000, the Group's turnover increased by 121%, compared to 1999, to over HK\$100 million. Turnover in the last six months of the year significantly increased as the ZONE business in Hong Kong, Singapore and the United States started operations in May, August and October respectively.

Other revenue increased from HK\$1.5 million in 1999 to HK\$28.9 million in 2000. The change was due to an increase in interest income. The other net income changed from a loss of HK\$45.0 million to a profit of HK\$99.9 million. The change was due to gain on disposal of subsidiaries and gain realized from e-KONG venture operations.

As of 31 December 2000, the Group's net assets increased by 702% from HK\$105 million in 1999 to HK\$842 million in 2000. Cash and investments at year end totaled HK\$715 million, an increase of 581% over last year.

The Group is in a strong financial position and anticipates another year of rapid growth in 2001, driven by the first full year of operations for the Group's new businesses.

## DIVIDEND

The board of directors of the Company has not recommended the payment of any dividend for the year ended 31 December 2000 (1999: Nil).

## LIQUIDITY AND FINANCIAL RESOURCES

In February 2000, the Company placed and issued 200,000,000 new ordinary shares of HK\$0.02 each at a price of HK\$3.60 per share. The net proceeds of approximately HK\$705 million are being used for financing expansion of operations and providing additional working capital of the Group.

Cash and cash equivalents at year end totaled HK\$413 million. The Group at year end remained debt-free. The Group managed to maintain a healthy balance sheet with total net assets of HK\$842 million (1999 : HK\$105 million).

## EMPLOYEE REMUNERATION POLICY

As of 31 December 2000, the Group had 225 employees, compared to 320 in 1999. The Group's remuneration policies are in line with prevailing market practices and formulated on the basis of the performance and experience of individual employees.

The Company has granted options to certain directors of the Company and certain employees of the Group under a share option scheme adopted on 25 October 1999. The subscription price and the exercise period are determined in accordance with prescribed formulae and terms.

## BUSINESS REVIEW

On 24 January 2000, Mr. Richard John Siemens was appointed Chairman of the Company. In February, the Group raised approximately HK\$705 million through a highly successful share placement.

With an outstanding management team in place and substantial funding secured, the Group set out to transform itself from a manufacturing-based company into a service-led enterprise. A new and unique business model was developed that targets selective industries, whereby technology, including the internet, is utilized to provide services to customers in a new way. Defining an original business concept, the Group provides sales, service, fulfillment, billing and settlement functions to service provider partners while providing a unique consumer experience that offers greater choice and convenience to customers.

The Group's unique business model has been successfully proven. Services are provided at a substantially lower cost as compared to traditional means, thereby creating an overwhelming value proposition to both customers and service providers. Starting with a telecommunications service business ZONE1511 in Hong Kong, one of the most competitive IDD markets in the world, the Group has proven that such service businesses can be operated and scaled without having to incur continuously spiraling operational and investment costs.

With effect from 1 December 2000 the Company (HKSE stock code 0524) was included as a constituent stock in the Hang Seng 100 Index (HS100), which reflects the performance of the 100 stocks with the highest market capitalization and highest turnover on The Stock Exchange of Hong Kong Limited. The Company was also listed as a constituent stock under the Hang Seng IT Series of Indexes - Hang Seng IT Index (HSITI) and Hang Seng IT Portfolio Index (HSITP).

The status of the businesses the Group has built or invested in as of **31 December 2000** is as follows:

## SUBSIDIARY COMPANIES

### ZONE Group Inc.

ZONE offers international direct dialing (IDD) and direct long distance (DLD) telecommunications services from a number of carriers through a single service portal. ZONE1511 was launched in Hong Kong in May 2000 and has quickly attracted well over 125,000 customers.

ZONE was also launched in Singapore in August 2000 as the recent deregulation of the local telecommunications industry provided a unique opportunity to be one of the few new players in the market. More than 12,000 customers were using the service as of December 2000.

The Group's strategic acquisition of the Furst Group in October 2000 provided ZONE with a strong local management team, established infrastructure, operating licenses and existing customer base to launch its service in the United States, the world's largest IDD and DLD market.

ZONE Group Inc. was honored in November 2000 with an 'Intelligent 20 Award' for its innovative use of technology in creating and operating its ZONE business.

## Management Discussion and Analysis *(Cont'd)*

### **speedinsure Global Limited**

*speedinsure* is the world's first service that allows users to obtain instant quotations from different insurers, compare them side by side, apply immediately for the best policy and receive instant coverage. It is a unique total fulfillment Centralised Insurance Underwriting Centre (CIUC) for the industry.

In Hong Kong, *speedinsure* soft launched in May 2000, initially with two products - term life and travel insurance. By October 2000, a full range of nine products - motor, domestic helper, personal accident, fire, home, shop, office, travel and life - became available.

The company has successfully teamed with 12 insurers to offer their services instantly through the *speedinsure* service portal and with many other insurers to offer traditional offline services. The service was commercially launched in November 2000 and has attracted more than 20,000 users.

In Singapore, *speedinsure* was awarded insurance broker licenses for both life and non-life products by the Monetary Authority of Singapore (MAS) in November 2000.

### **EventClicks Global Limited**

EventClicks is the world's most comprehensive service dedicated to assisting international corporate event organizers who wish to bring meetings, incentives, conferences and exhibitions (MICE) to the Asia-Pacific region. Launched at the end of 2000 and headquartered in Hong Kong, EventClicks has operations in Hong Kong, Singapore, Sydney and Melbourne and has representative offices in San Francisco and Beijing.

### **NETdefence Company Limited**

The Group acquired a majority interest in Hong Kong-based internet security specialists, PolyMedia Technology Company Limited in February 2000. In May 2000, the company's name was changed to NETdefence Company Limited to better reflect its focus on internet security solutions.

NETdefence specializes in security consulting and implementation services. It assists corporate customers in the design, implementation and management of security solutions. Its client base includes government departments and large multinational companies.

## **INVESTMENTS AND ASSOCIATED COMPANIES**

During the year, the Group invested in a number of carefully selected companies that offered technological or business advantages and provided long-term or strategic importance to the Group. Key developments concerning the Group's major investments include the following:

### **Space Media Holdings Limited**

In February 2000, the Group acquired a 20% stake in Space Media Holdings Limited, the leading independent internet advertising network company in the Asia-Pacific region. This stake was subsequently sold to Engage Inc., a NASDAQ listed company, for a total consideration of US\$12,290,000 settled by shares of Engage Inc. in August 2000.

**Sportingbet.com (UK) plc**

In April 2000, the Group completed its acquisition of a 2% stake in Sportingbet.com (UK) plc, the first British company to offer tax-free betting on all major global sports events via the internet. Sportingbet.com, previously traded on OFEX, successfully listed on the Alternative Investment Market of the London Stock Exchange (“AIM”) on 30 January 2001, raising approximately GBP18 million.

**SUMmedia Inc.**

The Group invested US\$5 million in SUMmedia Inc. (NASDAQ OTC Bulletin Board: ISUM.OB), a company that has developed a number of unique internet-based mobile and wireless marketing solutions that provide a valuable extension to the directory-based advertising packages offered by Yellow Pages directories. SUMmedia is targeting industry leaders in France, Korea, Hong Kong, the United States, Germany and Italy as potential customers and/or partners.

**Yes Television plc**

In February 2000, the Group invested GBP4 million in Yes Television plc, a British pioneer in broadband content technology and broadcasting. Its Hong Kong subsidiary is due to launch its Total Television service in 2001 to the Hong Kong market. Services will include true video on demand, broadcast channels, enhanced TV and e-commerce.

**PROSPECTS**

Prospects are excellent for the Group. Having formulated a proven and scalable business model and having resolved the technological, implementation and distribution challenges of establishing its core service businesses, the Group is now well-positioned for substantial growth in the coming year.

The Group’s business model remains unique and no immediate competitor has emerged nor is expected to emerge in the near term. Direct challenges are even less likely in today’s business environment due to a tight capital market and as investors stay away from new technology plays.

The Group has targeted industries that are well-suited to its business model, i.e. those in which increased competition and price pressures have led to declining margins for incumbents. The Group is also entering the United States market with its ZONE service business at an opportune time. The Group is confident of making fast and substantial strides in this, the world’s largest telecommunications market.

For the coming year, the Group intends to concentrate its resources on growing its service businesses, ZONE, *speedinsure* and EventClicks. The Group will continue to make investments and acquisitions that will help grow these service businesses effectively. With technological and other essential infrastructure now in place, less emphasis on venture capital investments and other long-term strategic investments is expected. The Group will continue to monitor and review its investment portfolio in line with its strategy for moving forward.

**Derrick Francis Bulawa***Chief Executive Officer*

Hong Kong, 8 March 2001