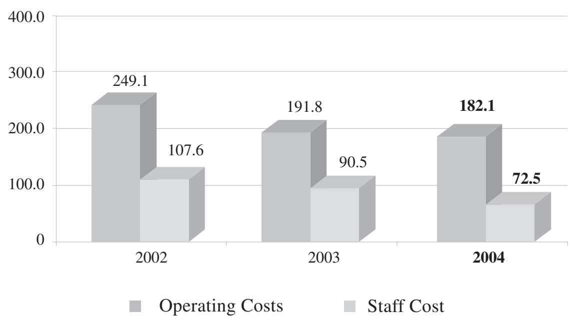
Financial Review

Results

During the year under review, the Group recorded a modest increase in revenue growth. Total consolidated turnover increased to HK$402.7 million compared to HK$402.5 million for the prior year.

Operating costs reduced from HK$191.8 million in 2003 to HK$182.1 million reflecting further improvements in operating efficiencies within the Group.

Operating and Staff Costs (HK$ millions)

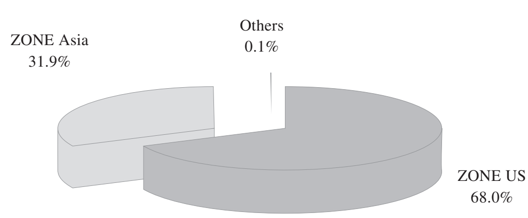


Operating costs before depreciation decreased by 9.7% from HK$147.4 million in 2003 to HK$133.2 million. Staff cost decreased from HK$90.5 million in 2003 to HK$72.5 million indicating additional productivity gains being achieved.

EBITDA for the Group was HK$11.8 million for 2004 compared to HK$23.8 million for 2003.

Turnover from ZONE US increased by 3.3% from HK$265.0 million in 2003 to HK$273.7 million in 2004 which accounted for 68.0% of the total Group turnover in 2004 compared to 65.8% for the previous year.

% Turnover Contribution



ZONE Asia, comprising the Group's telecommunications business in Hong Kong and Singapore, collectively achieved net profit for the year and recorded a 3.5% decrease in the turnover from HK$133.1 million for the previous year to HK$128.5 million for 2004.

The Group's gross profit decreased by 11.7% from HK$167.4 million in 2003 to HK$147.8 million. The gross profit for 2003 took into account an amount of HK$8.2 million which was the provision for rebate of Universal Services Contributions ("USC") from PCCW-HKT Telephone Limited. This amount was offset against the cost of sales of the Group in 2003.

The gross profit as a percentage of turnover for 2004 was 36.7% compared to 41.6% (or 39.6% after excluding the provision for rebate of USC) for 2003.

The operating loss for the year was HK$32.4 million compared to HK$21.1 million for the previous year.

The consolidated net loss attributable to shareholders was HK$131.6 million compared to HK$19.8 million for 2003. The significant increase in the net loss for 2004 was mainly attributable to non-recurring restructuring costs of HK$100.5 million recorded following the write-off of certain assets related to the Group's US operations as referred to in the section titled "Business Review" above.

Assets

As at 31 December 2004, the net assets of the Group amounted to HK$43.6 million (2003: HK$176.6 million). Such decrease was mainly caused by the said asset write-off.

Liquidity and Financing

The Group relied on its internal resources to fund operations during the year.

Cash and bank balances (excluding pledged deposits) were HK$44.4 million as at 31 December 2004 (2003: HK$30.9 million). The Group had pledged deposits amounting to HK$2.8 million as at 31 December 2004 (2003: HK$3.3 million) and had no bank borrowings during the year.

As at 31 December 2004, the Group's liabilities under equipment lease financing was HK$1.0 million (2003: HK$0.6 million).

The Group's gearing ratio, measured on the basis of total borrowings as a percentage of net assets was 2.3% (2003: 0.3%). The 2.0% increase was due mainly to a decrease in net asset value following the said write-off. Such write-off does not have any adverse effect on the cash or liquidity position of the Group.

Foreign Exchange Exposure

Since most of the Group's assets and liabilities, revenue and payments are denominated in Hong Kong dollars and United States dollars, the Group considers that there is no significant exposure to foreign exchange fluctuations so long as the Hong Kong-United States dollar exchange rate remains pegged. As the cash contribution from the Singapore operations continues to grow, the Group will closely monitor the Singapore-United States dollar exchange rate and, whenever appropriate, will take any necessary actions to reduce such exchange risks.

Contingent Liabilities and Commitments

As at 31 December 2004, there were no material contingent liabilities and commitments.