

## Financial Review

### Results

For the year ended 31 December 2006, the Group recorded consolidated turnover of HK\$702.8 million representing an increase of HK\$280.2 million, or 66.3%, as compared to 2005.

Operating costs for 2006 amounted to HK\$148.3 million compared to HK\$125.3 million in 2005, which increase corresponds to but at a lesser rate than the increase in turnover.

Turnover from ZONE US increased by 94.0% from HK\$308.7 million in 2005 to HK\$599.0 million in 2006, while ZONE Asia, comprising the Group's telecommunication business in Hong Kong and Singapore, recorded a 7.5% decrease in turnover from HK\$105.4 million for 2005 to HK\$97.5 million for 2006.

The Group's gross profit increased by 24.6% from HK\$154.9 million in 2005 to HK\$193.1 million in 2006.

The operating profit for the year was HK\$47.5 million compared to HK\$38.6 million for the previous year.

The consolidated net profit for the year was HK\$40.6 million compared to a net profit of HK\$47.1 million, which included a deferred tax credit of HK\$8.5 million, for 2005.

EBITDA for the Group increased by 26.5%, or HK\$12.0 million, from HK\$45.2 million for 2005 to HK\$57.2 million in 2006.

### Assets

As at 31 December 2006, the net assets of the Group amounted to HK\$132.1 million as compared to HK\$91.1 million in 2005.

### Liquidity and Financing

Cash and bank balances (excluding pledged deposits) were HK\$100.4 million as at 31 December 2006 (2005: HK\$58.7 million). The Group had pledged deposits amounting to HK\$1.5 million as at 31 December 2006 (2005: HK\$2.5 million) to banks for guarantees made by them to certain telecommunication carriers for payments due by the Group.

In 2006, a bank loan of HK\$46.8 million was advanced to a subsidiary of the Company for the purpose of the WRLD Alliance transaction, of which HK\$15.0 million was repaid during 2006, and the balance thereof as at 31 December 2006 amounted to HK\$31.8 million (2005: Nil). This bank loan, comprising the Group's entire bank borrowings, was made in United States dollars at a fixed interest rate and secured through, among others, a pledge of the trade receivables of the subsidiary.

As at 31 December 2006, the Group's liabilities under equipment lease financing arrangements amounted to HK\$0.6 million (2005: HK\$0.8 million).

The Group's gearing ratio, measured on the basis of total borrowings as a percentage of net assets was 24.5% (2005: 0.9%). Such increase principally arose as a result of the bank borrowings referred to above.

### Foreign Exchange Exposure

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

## **Contingent Liabilities and Commitments**

As at 31 December 2006, there were no material contingent liabilities and commitments.

## **Post Balance Sheet Events**

On 16 February 2007, the Group entered into a placing and subscription agreement whereby 52 million shares of the Company were placed and subscribed for at the price of HK\$0.90 per share, subject to adjustment for commissions, costs and expenses incurred in relation thereto. Details of the placing and subscription agreement were disclosed in the announcement of the Company dated 16 February 2007.

On 16 February 2007, Cyberman Limited (a wholly-owned subsidiary of the Company), Cannizaro Hong Kong Limited (acting as the investment manager of its fund) and ZONE Resources Limited (“ZRL”) entered into a subscription and shareholders agreement whereby Cannizaro subscribed or procured subscriptions for 500 shares of ZRL, representing 5% of the issued share capital of ZRL, for a consideration of US\$2.5 million. ZRL remains to be a 95% subsidiary of the Company. Details of the subscription and shareholders agreement were disclosed in the announcement of the Company aforesaid.

The transactions contemplated by the said placing and subscription agreement and the subscription and shareholders agreement were completed in February 2007.