Management Discussion and Analysis

FINANCIAL RESULTS

The Group's turnover recorded for the year was approximately HK$263,896,000, a 164% increase as compared to HK$100,125,000 for last year. 85% of the turnover was contributed by revenue from the ZONE telecommunication business during the year.

The operating loss of HK$252,765,000 was due mainly to the costs incurred during the growth and expansion phase of the Group's businesses. The consolidated net loss attributable to shareholders was HK$681,315,000 (2000: profit of HK$1,302,000). The significant loss recorded was mainly attributable to the non-recurring losses of HK$427,292,000 from write-offs of goodwill and intangible assets as well as unrealised holding losses and provisions for diminution in value of the Group's investments.

FINAL DIVIDEND

The Board has not recommended the payment of any final dividend for the year ended 31 December 2001 (2000: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The Group has managed to maintain stable liquidity with cash and cash equivalents of approximately HK$118,456,000 (2000: HK$412,988,000). The Group's liabilities under equipment lease financing amounted to HK$16,257,000 (2000: HK$582,000). The Group's overall gearing level was approximately 3% (2000: N/A). In addition, the Group had pledged deposits amounting to HK$7,107,000 (2000: HK$68,680,000). No bank borrowings were recorded during the year under review.

In December 2001, the Company raised net proceeds of approximately HK$128,000,000 through a rights issue of 3,139,294,672 rights shares of HK$0.02 each at a price of HK$0.0425 per rights share (the "Rights Issue"). The net proceeds are being used for general working capital purposes, mainly for financing the ZONE business.

During the year, the Group mainly relied on its internal resources for its funding requirements. With the net proceeds raised from the Rights Issue, sufficient working capital will be provided for its present requirements.

EMPLOYEE REMUNERATION POLICY

At 31 December 2001, the Group employed 226 staff in Hong Kong and overseas, compared to 225 in 2000. The Group's remuneration policies continued to be in line with prevailing market practices and are formulated on the basis of the performance and experience of individual employees.

In addition to salary payment, other fringe benefits including training subsidies, provident fund and medical insurance are also offered to employees. The Company also granted share options to certain directors of the Company and certain employees of the Group to motivate their performance and contribution to the Group.

BUSINESS REVIEW AND OUTLOOK

During this year the Group suffered considerable reductions in the valuation of its investments made in a number of technology and Internet-related companies. These losses were prompted by declines in the worldwide equity markets, negative sentiment towards the technology sector and continuing difficulties encountered by "new economy" businesses. The Group has therefore taken a prudent approach to provision for diminution of its investments and has also either written off or substantially written down most of its non-listed investments. The Group's investments in publicly-listed securities, originally deemed as long-term investments, have been appraised at current market values.

Nevertheless, the Group's flagship IDD and telecom business ZONE continues to experience steady and consistent growth. In the United States, ZONE completed the acquisition of certain assets of The Furst Group, Inc. in February 2001 and commercially launched its nationwide domestic long-distance and international telecommunication services in June 2001 under two brand names, viz. "ZoneLD" targeted at individuals and small businesses and "ZoneCMS" targeted at large corporations and enterprises. During this year, distribution relationships were also established with key on-line marketing partners in the United States. Some of the on-line marketing sites promoting "ZoneLD" services to individuals and small businesses are Yahoo!, Priceline.com and MSN. An in-house sales team and external value-added resellers are used to penetrate the large corporation and enterprise markets. ZONE's US operations accounted for 43% of the Group's total revenue for this year and this is expected to increase further in the coming year.

In Hong Kong, ZONE1511's switch facilities were upgraded in August 2001 to accommodate the increase in International Direct Dial (IDD) traffic and to enable the introduction of new value-added services such as virtual global calling card and call-forwarding services. ZONE1511's website *(www.zone1511.com)* underwent extensive enhancements and incorporated additional self-service and on-line support functions. ZONE1511 has replaced a number of reseller partners with world-class carriers such as KDDi, SingTel, Teleglobe and Equant. ZONE1511 will strive to increase its market share, improve its gross margins and strengthen its business. It intends to accomplish this through further development of more innovative value-added services, expansion of its distribution channels and focusing on forging strategic partnerships.

ZONE1511's Singapore operation continued to grow in a highly competitive environment. ZONE1511 has remained competitive by maintaining lower operating costs while providing customers with choice, quality, reliability and value.

EventClicks, the Group's corporate management subsidiary, operates within the travel- and hospitality-related industries, whereby global air-travel and hotel occupancy suffered drastic declines since the events in the United States on 11 September 2001. A number of corporate clients postponed their business events and incentive trips due to safety concerns, resulting in a drop in booked revenue for the fourth quarter of 2001. However, we expect conference and events bookings to rebound and materialise during the second and third quarter of 2002.

BUSINESS REVIEW AND OUTLOOK *(Cont'd)*

speed***insure***, the Group's on-line insurance services subsidiary, faced tough challenges while introducing its novel direct on-line approach into an agent-centric and tradition-bound market. As a result, speed***insure*** scaled down its business expansion in an effort to reduce operating costs. By sustaining a steady stream of on-line business, speed***insure*** has managed to operate self-sufficiently whilst maintaining good quality service standards for their new and repeat customers.

The Group will continue to capitalise on its distinct advantages, a key factor being the Group's use of technology to provide effective and efficient innovative solutions within each of our chosen businesses. Concurrently, as we grow our businesses, the Group will also enforce internal financial and management diligence to maintain and operate our businesses in a resourceful and cost-effective manner.

Derrick Francis Bulawa
Chief Executive Officer

Hong Kong, 3 April 2002