

Report of Directors

The board of directors (the “Board”) of the Company is pleased to present its report and the audited financial statements of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2003.

Principal activities

The principal activity of the Company is investment holding.

The Group’s major operating subsidiaries are in the business of providing telecommunication services. The Group’s ZONE telecommunication business currently has operations in United States, Hong Kong and Singapore. The Group’s turnover during the financial year consisted primarily of revenue generated from these operations.

ZONE’s web-enabled technology provides customers with access to a choice of different categories of telecom services and providers while empowering them with the tools to manage their telecommunications needs.

In the United States, ZONE Telecom, Inc. (“ZONE US”), a wholly-owned subsidiary of the Company, is a United States Federal Communications Commission licensed telecommunication carrier. ZONE US provides two distinct product offerings, ZoneCMS (www.ZoneCMS.com) and ZoneLD (www.ZoneLD.com), which service the corporate and residential markets respectively. ZONE US has developed a web-based interface for each segment of the market which supports management and service capabilities for its customers. Besides providing voice telecommunication-related services, ZONE US has also expanded its range of services targeting mainly at the corporate segment including the addition of local dedicated services, managed IP-VPN, frame relay, and other data solutions, enhanced toll-free, and other IP-centric offerings.

In Hong Kong, ZONE Limited (“ZONE1511”), a wholly-owned subsidiary of the Company, is licensed by the Telecommunications Authority of Hong Kong. By using a single web-enabled platform (www.zone1511.com), ZONE 1511 allows customers to choose the most appropriate supplier(s) from over ten international long-distance (“IDD”) carriers. ZONE1511 has a range of other value-added products to complement its basic IDD service. These are integrated with the ZONE1511 customers’ accounts, and include short messaging service, international call-

forwarding, virtual global calling cards and fax management services. ZONE1511 has also made available a number of services using the latest IP-based technologies which mainly cater for the Hong Kong corporate customers with presences in Mainland China.

In Singapore, ZONE Telecom Pte Ltd, a wholly-owned subsidiary of the Company, is a telecommunication service provider licensed by the Infocomm Development Authority of Singapore. ZONE Singapore (www.zone1511.com.sg) offers a host of value-added services that help businesses improve operation efficiency.

A description of the principal activities of other principal subsidiaries is set out in note 12 to the financial statements.

Segmental information

An analysis of the Group’s turnover and contribution to operating result by business and geographical segments of operations for the year ended 31 December 2003 is set out in note 25 to the financial statements.

Results and dividends

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 15.

The Board of the Company did not recommend the payment of any dividend for the year ended 31 December 2003 (2002: Nil).

Group financial summary

A summary of results, assets and liabilities of the Group for the last five financial years is set out on pages 44 and 45.

Major customers and suppliers

In the year under review, the aggregate turnover attributable to the five largest customers of the Group accounted for approximately 5.2% of the Group’s total turnover for the year, and sales to the largest customer included therein amounted to approximately 1.4%.

The aggregate purchases attributable to the five largest suppliers accounted for approximately 62.2% of the Group’s total purchases for the year, and purchases from the largest supplier included therein amounted to approximately 28.6%.

At no time during the year have the directors of the Company, their associates, or those shareholders which, to the knowledge of the directors of the Company, own more than 5% of the Company's share capital, had any interest in any of the five largest customers and suppliers.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 11 to the financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 20 to the financial statements.

Board of directors

The directors of the Company is committed to maintaining a high standard of corporate governance in discharging its obligations, to act in the best interest of the shareholders and to enhance long-term shareholders' value.

The Board has adopted the principles as set out in the Code of Best Practice under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and where applicable has established various self regulatory and monitoring mechanisms to ensure that effective corporate governance is practiced.

The Board is collectively responsible for all business and affairs of the Company. Pursuant to the Company's Bye-laws, the Board has delegated the day-to-day management of the Company's business to the executive directors and focuses its attention on overall strategic matters related to policies, finance and shareholding issues.

The Board has established written policies that provide a framework and guidelines for the members so that they are able to discharge their respective duties in an efficient and consistent manner, whereby corporate governance practices of the Company are strengthened, the corporate image of the Company is improved and the confidence of the shareholders, regulators and public can be assured.

The Board meets in person at least four times a year and on occasions when a Board decision is required for major issues. Members of the Board are provided with adequate and timely information prior to the Board meetings to ensure that the directors can make informed decisions when fulfilling their responsibilities. During the year under review, as a number of directors were located in different time zones or otherwise required frequent travel, it was difficult to convene physical meetings, and in lieu thereof written resolutions of the Board together with full copy of related documents were circulated to all directors for consideration and approval. All such written resolutions were approved by all directors unanimously. The Board held four meetings in 2003 and the average attendance was 91.67%.

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

Executive directors:

Mr. Richard John Siemens (*Chairman*)

Mr. Kuldeep Saran (*Deputy Chairman*)

Mr. Derrick Francis Bulawa
(resigned on 25 November 2003)

Mr. Lim Shyang Guey

Directors:

Mr. William Bruce Hicks

Mr. Shane Frederick Weir *

Mr. Matthew Brian Rosenberg *

** Independent Non-executive Directors*

Mr. Kuldeep Saran was appointed the Managing Director of the Company with effect from 1 January 2004. Biographical details of directors of the Company are set out on page 7 under the section titled "Board of Directors".

In accordance with the Bye-law 87 of the Company's Bye-laws, Mr. Shane Frederick Weir and Mr. Matthew Brian Rosenberg shall retire by rotation at the forthcoming annual general meeting and are eligible for re-election.

Board committees

The Board has delegated certain powers, authorities and discretions to a number of Board committees consisting of such directors as it deems appropriate. Such committees act in conformity with the guidelines and regulations which are set out by the Board and in fulfilment of the purpose for which the committees were appointed.

Report of Directors (continued)

Executive Management Committee

The Executive Management Committee comprises the executive directors. The committee is principally responsible for directing, planning, and managing the Group's businesses and operations, formulating strategies and policies for the consideration of the Board and implementing the same to best achieve the Group's overall business objectives in an effective and efficient manner.

The committee meets regularly each month to review the Group's business performance with the senior management of each operation within the Group. Ad hoc meetings are also held on an as-required basis and the committee is also engaged in frequent informal discussions.

Audit Committee

The Audit Committee was established on 29 September 1999 by the Board and comprises two Board members, both of whom are independent non-executive directors. A set of written terms of reference, which describes the authority and duties of the committee and is based on the recommendations as set out in "A Guide of Effective Audit Committees" issued by the Hong Kong Society of Accountants, was adopted by the Board and was subsequently incorporated in the policies.

The committee's principal role is to review the quality and fairness of the financial reports of the Company and considers the nature and scope of the internal and external audit reviews. It also assesses the effectiveness of the accounting and financial control systems of the Group.

The committee is granted the authority to conduct or authorise investigations into any activity within its terms of reference.

In 2003 two meetings were held and the attendance rate was 100%. The external auditors and executive officers of the Company attended to answer any questions raised. Full minutes of the committee meetings are recorded and submitted to the Board for its information and review.

The Company's external auditors carried out in the course of the statutory audit, a review of the effectiveness of the Company's material financial internal controls annually to the extent of their scope as laid out in their audit plan. Non-compliance and internal control weaknesses are noted during their audit and the auditors' recommendations are reported to the committee.

The Audit Committee has reviewed with the management and the auditors of the Company the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the draft audited financial consolidated results for the year ended 31 December 2003.

Remuneration Committee

The Remuneration Committee comprises two executive directors and an independent non-executive director.

The committee is responsible for setting the Group's remuneration structure with reference to fair and objective standards, reviewing the remuneration of the directors and to deal with such other matters relating to remuneration as directed by the Board.

Share Option Committee

The Share Option Committee comprises the Chairman and Deputy Chairman. In relation to matters concerning the grant in favour of members of the Share Option Committee, the committee comprising the independent non-executive directors is delegated by the Board to consider such grant and the terms as it considers appropriate.

The committee's principal role is to formulate, implement and administer the granting of share options to employees and eligible participants of the Group with the view of achieving the purpose of the share option schemes applicable to the Company.

The committee meets as and when required. In 2003, no share options were granted.

Directors' interests in securities

As at 31 December 2003, the directors and chief executive of the Company and their respective associates had the following interests and short positions (if any) in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"):

Number of ordinary shares of HK\$0.01 each held

Name of director	Personal interests	Corporate interests	Total interests	Percentage of issued share capital
Mr. Richard John Siemens	–	100,631,627 <i>(Note 1)</i>	100,631,627	21.4%
Mr. William Bruce Hicks	2,319,914	67,962,428 <i>(Note 2)</i>	70,282,342	14.9%
Mr. Kuldeep Saran	341,200	67,632,428 <i>(Note 3)</i>	67,973,628	14.4%
Mr. Shane Frederick Weir	10,000	–	10,000	0.0%

Notes:

1. 2,400,000 shares are beneficially owned by Siemens Enterprises Limited, a company controlled by Mr. Richard John Siemens. 98,231,627 shares are beneficially owned by Goldstone Trading Limited, a company controlled by Mr. Siemens.
2. 67,962,428 shares are beneficially owned by Great Wall Holdings Limited, a company controlled by Mr. William Bruce Hicks.
3. 67,632,428 shares are beneficially owned by Future (Holdings) Limited, a company controlled by Mr. Kuldeep Saran.

All interests disclosed above represent long position in the shares of the Company and there were no underlying shares held by the directors as at 31 December 2003.

Saved as disclosed above, as at 31 December 2003, none of the directors, chief executive or their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangement to enable directors to acquire shares or debentures

Apart from the share option schemes that are adopted or may be adopted by the Company or any of its subsidiaries and referred to in the paragraph below titled “Share option schemes”, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable any director or chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors, chief executive nor any of their spouses or children under the age of 18 had any interest in, or had

been granted, any right to subscribe for shares in or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such right during the period.

Directors’ service contracts

The independent non-executive directors of the Company entered into service contracts with the Company for an initial one year period ended on 31 December 2002 and thereafter continued until terminated by either party giving to the other an at least one calendar month’s notice in writing thereof.

As at 31 December 2003, none of the directors proposed for re-election at the forthcoming annual general meeting 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 statutory compensation.

Directors’ interests in contract of significance

No contract 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.

Report of Directors (continued)

Substantial shareholders

As at 31 December 2003, the following persons, other than the directors or chief executive of the Company, had interests and short positions (if any) in

the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Number of shares held	Percentage of interest
Goldstone Trading Limited	98,231,627*	20.9%
Great Wall Holdings Limited	67,962,428*	14.4%
Future (Holdings) Limited	67,632,428*	14.4%

* The interests herein disclosed represent the same interests as the corporate interests of Mr. Richard John Siemens (being held through Goldstone Trading Limited), Mr. William Bruce Hicks and Mr. Kuldeep Saran as disclosed in the notes to the description under the heading of "Directors' interests in securities" above.

All interests disclosed above represent long position in the shares of the Company.

Save as disclosed above, the Company has not been notified of any other persons (other than the directors or chief executive of the Company) who had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO as at 31 December 2003.

Share capital

Details of movements in the Company's share capital during the year are set out in note 18 to the financial statements.

Share option schemes

Details of share option schemes of the Company and rules and procedures for share option schemes of subsidiaries of the Company 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 12 to the financial statements.

Liquidity

As at 31 December 2003, the Group has managed to maintain stable liquidity with cash and cash equivalents of approximately HK\$34,177,000 (2002: HK\$38,795,000).

Bank loans, overdrafts and other borrowings

The Group has no bank loans, overdrafts and other borrowings as at 31 December 2003. There was no interest capitalised by the Group during the year.

Retirement benefits scheme

Details of the retirement benefits schemes operated by the Group are set out in note 2 to the financial statements.

Remuneration policies and employee relations

As at 31 December 2003, the Group employed 186 (2002: 214) full-time employees in Hong Kong and overseas. The Group has maintained good relationships with its employees. None of the Group's employees is represented by a labour union.

The Group's remuneration policies are formulated on the basis of the performance and experience of individual employee and are in line with local market practices where the Group operates. The Group has established incentive bonus schemes to motivate and reward employees at all levels to achieve the Group's objectives. In addition to salary and bonus payment, the Group also offers to its employees other fringe benefits including provident fund and medical benefits. Furthermore, pursuant to the share option schemes adopted by the Company, share options may be granted to eligible employees of the Group to subscribe for shares in the Company under the terms and conditions stipulated therein.

Code of best practice

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not, throughout the year ended 31 December 2003, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, save that non-executive directors of the Company are not appointed for a fixed term, but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's Bye-laws.

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.

Pre-emptive rights

There is no provision 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 law in Bermuda.

Auditors

The auditors of the Company Messrs. Moores Rowland merged with Messrs. Mazars on 1 October 2003 and are now practising under the name of Moores Rowland Mazars.

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

By Order of the Board

Lau Wai Ming Raymond
Company Secretary

2 April 2004