

## Chairman's Statement

The Group recorded a modest increase in revenue in 2004 as compared to the previous year. While the Group has continued to develop its core ZONE telecommunications businesses in the United States, Hong Kong and Singapore, it has also made significant progress in its strategy to expand its services into other areas, including the rapidly growing area of Voice over Internet Protocol ("VoIP") communications. The Group has forged a number of key strategic partnerships in 2004 that it believes will strengthen the Group's operating efficiencies and accelerate penetration into VoIP and other segments.

Ongoing changes in the market dynamics of the telecommunications industry as well as rapid technological developments, particularly in the US, continued to affect the Group's businesses during the year under review. Major developments that have had an impact on the Group's current businesses and its strategy moving forward include: the increasing demand for VoIP services, the move towards bundled services and convergence of fixed and mobile services, and the growing use of soft switch and other interoperable technologies. The Group took certain strategic initiatives during the year in order to remain competitive in this changing telecommunications landscape.

The Group resolved to outsource some of the business processes of its US operations. The Group believes that such third-party business process outsourcing ("BPO") will provide many strategic advantages, including: shortening the time required for launch and marketing of new products and services (including VoIP services), enabling the roll-out of bundled services, minimising future capital expenditures and reducing the risks associated with technology obsolescence. Those ongoing changes in the market dynamics as well as rapid technological developments in the telecom industry, coupled with the Group's outsourcing strategy, resulted in a review conducted by the Group of its assets, and hence certain assets were written off. Although this write-off has had a significant non-recurring impact on the Group's 2004 financial results, it is the Group's view that the BPO arrangement was necessary to enhance competitiveness in a changing market and technology environment.

As ZONE US continues to grow its revenue, it has taken a further step towards reorganising its operations with the goal of becoming more sales and customer-focused. With its BPO partner assuming many IT and

back-office functions, ZONE US has been able to reorganise its basic sales structure to focus on revenue growth.

In addition to the business alliance with the BPO partner, the Group has also made further moves towards forming key alliances with strategic partners that can bring synergistic benefits to its operations. For example, in February 2005, ZONE US entered into a partnership agreement with Belkin Corporation ("Belkin") whereby Belkin will provide VoIP service solutions to ZONE US to support the launch of a private-labelled ZONE broadband phone services for residential and small-business customers. The Belkin partnership, coupled with the agreement with the Group's chosen third-party BPO vendor, has enabled ZONE US to quickly expand into the VoIP sector without delay and without incurring significant upfront capital costs. Using the facilities and services of the BPO vendor, ZONE US will also be able to move quickly towards offering bundled products—such as mobile, broadband and data—in addition to its current offerings.

In Hong Kong, the telecommunications market remains highly competitive, particularly in the international direct dialling ("IDD") market where certain market players have aggressively introduced special low-priced packages. ZONE Hong Kong's revenue and profit margin were reduced as a result of customer churn and price erosion. However, ZONE Hong Kong continues to focus on providing quality service and innovative value-added services as it remains responsive to the needs of customers.

Similar to the situation in the US, VoIP has received considerable publicity and media coverage in Hong Kong. Some fixed-line operators have introduced VoIP services that provide customers with local telephone services through the broadband network. However, there are still a number of outstanding regulatory issues surrounding the provision of VoIP services in Hong Kong. The Office of Telecommunications Authority ("OFTA") has issued a consultation paper on "Regulation of Internet Protocol (IP) Telephony" in October 2004 but has yet to make a decision on the regulatory framework for the provision of IP telephony services in Hong Kong. ZONE Hong Kong is currently piloting VoIP services with selected customers. A commercial roll-out of VoIP services from ZONE Hong Kong is likely to proceed once the regulations governing IP telephony in Hong Kong are clearly defined.

## Chairman's Statement (continued)

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ZONE Singapore recorded another year of revenue and profit growth, earning itself a Deloitte Technology Fast 500 Asia Pacific award for 2004. This award programme recognises the top 500 fastest-growing technology companies from more than ten regions throughout Asia Pacific that have managed to achieve three years of revenue growth. As ZONE Singapore maintains its reputation for reliable call quality and responsive customer service, it will continue to expand its offerings in its core IDD business. The Group expects an increase in revenue as ZONE Singapore launches additional value-added services.

Globally, rapid technology developments and changing market dynamics continue to shape the future of the telecommunications landscape. For instance, open source, interoperable IP technologies are replacing legacy networks and access devices at a fraction of the traditional cost and are capable of providing new and innovative applications and services. Also, deployment of broadband wireless access ("BWA") technologies will soon deliver true "anytime, anywhere" high-speed data and video access through wireless broadband connectivity. By 2007, it is expected that technologies built on the WiMax standard will be able to offer full mobility and WiMax chips will be installed in new notebook computers and smartphones. New business opportunities will undoubtedly be created as these technologies speed up the pace of convergence of voice, video and data communications services.

**Looking ahead**, as the Group continues to grow its existing core business, it expects to position itself to capitalise on the growing demand for IP-centric and wireless-based services. As part of its strategy to expand its service offerings, the Group will pursue selected VoIP and BWA licences that are expected to be issued by regulatory authorities throughout the region in 2005. The Group will look to further improve its operational efficiency and business processes by building upon its BPO strategy, and by developing appropriate partnerships. The Group made several key strategic decisions during 2004 to better position itself within today's rapidly evolving telecommunications marketplace and believes it is well prepared to stay ahead in this competitive environment.

On behalf of the Board, I would like to thank the customers, shareholders, business associates and professional advisers for their support and extend its appreciation to all employees for their hard work, dedication and commitment to the Group.



Richard John Siemens  
*Chairman*

12 April 2005