

## Business Review

During the year under review, the Group recorded a significant increase in turnover while continuing to maintain profitable operating results. The acquisition of assets in connection with the provision of long distance telecommunication services in the United States (the “WRLD Alliance transaction”), as approved by shareholders of the Company in March 2006, was successfully completed and smoothly integrated with the existing ZONE US operations. Such assets have proven their value as they helped ZONE US in contributing significantly to the growth in turnover and EBITDA of the Group.

Turnover of the Group was HK\$702.8 million, up 66.3% from HK\$422.6 million for the previous year. This increase was contributed mainly by the increase in revenue of ZONE operations in the United States. Profit from operations and profit before taxation of the Group for the year recorded rises of 23.1% and 15.8%, respectively, when compared to the previous year. The Group recorded net profit of HK\$40.6 million compared to HK\$47.1 million for the prior year, however, if the deferred tax effect is excluded, the 2006 net profit would be 5.5% higher than 2005. EBITDA of HK\$57.2 million was up 26.5% from HK\$45.2 million for the prior year.

The Group’s balance sheet remains healthy with total net assets of HK\$132.1 million, representing an increase of 45.1% over the prior year, with bank balances and cash in 2006 exceeding HK\$100 million.

ZONE operations in the United States (“ZONE US”) recorded another year of robust growth almost doubling its turnover from HK\$308.7 million for the previous year to HK\$599.0 million. This increased turnover was mainly due to the growth in the carrier business of ZONE US servicing more than one-third of all independent local exchange carriers (“ILECs”) located throughout the United States, including those customers acquired under the WRLD Alliance transaction. Profit from operations for the year totalled HK\$29.9 million, representing an increase of 37.8%

compared to HK\$21.7 million for the prior year. In addition to achievements in revenue growth, ZONE US has also been actively implementing various strategies to improve operating efficiencies and increase gross margins. Such improvements and increases are being achieved through, among others, the integration of the ZONE US existing operation base in the North East with the facilities of WRLD Alliance headquartered in Utah, and also the benefits of greater economies of scale as a result of more competitive pricing from carrier partners. In the coming year, ZONE US will focus on increasing its market share for its core businesses and continuing to improve margins and productivity while, at the same time, seeking opportunities to introduce new and complementary products and services.

Turnover from ZONE Hong Kong and ZONE Singapore (collectively, “ZONE Asia”) for 2006 amounted to HK\$97.5 million compared to HK\$105.4 million for 2005. Profit from ZONE Asia’s operations for the year under review were HK\$27.9 million, representing an increase of 34.1% compared to HK\$20.8 million for the previous year. ZONE Asia was able to achieve higher operating profits, despite a slight decrease in turnover, by further increasing its gross margins and continuing its efforts to improve operating productivity.

Following the award of the Services-Based Operator (“SBO”) Licence from the Office of the Telecommunications Authority (“OFTA”) of Hong Kong in March 2006 and subsequent resolution of the issues on interconnection with the fixed telecommunication network services (“FTNS”) providers, ZONE Hong Kong completed its interconnection arrangements and became the first licensee to provide Voice-over-Internet Protocol (“VoIP”) services with local Hong Kong telephone numbers allocated by OFTA under the terms of the SBO licences. This service is not only available to customers based in Hong Kong, but is also available to persons in any part of the world that obtain broadband

access to ZONE's network, thus extending ZONE Hong Kong's reach to a new overseas potential customer base.

In addition, ZONE Hong Kong continues to be the main resource base for penetrating into the China market. Towards the end of 2005 and in 2006, ZONE Hong Kong deployed technical and business teams to provide management expertise and support to its partners' operations in China.

ZONE Singapore continued on its growth path and achieved notable results in 2006. Creative and targeted marketing initiatives have led to an increased acquisition rate for new members, a more stable user base and a higher average rate per user ("ARPU"), all of which contributed to the higher revenue level. Effective cost management and negotiations with carriers have contributed to better margins and record-high operating results. While ZONE Singapore keeps reinforcing its position in its core services, it has also deployed, in conjunction with ZONE Hong Kong, new IP-based technologies to service its customers with offices worldwide. Looking ahead to 2007, ZONE Singapore plans to form alliances to further develop expansion into the region while expanding its business in Singapore through innovative product packaging and value-added services to differentiate it from competitors.

In December 2006, ZONE Asia officially launched its latest global VoIP service "ZoiPPE" ([www.zoippe.com](http://www.zoippe.com)) at the ITU Telecom World 2006. Since the successful launch, ZoiPPE has unveiled a number of partnership and marketing programmes to enhance brand recognition and grow its user base. As an example, in conjunction with AsiaXPAT, ZONE

Asia is promoting the co-branded "AsiaXPAT & ZoiPPE" service to the expatriate community in Asia. Also, its recent "Free Calls to China" promotional offer during the Lunar New Year festive season has encouraged many users in the Chinese community around the world to use its services.

In February 2007, the Group successfully completed a placement of 52 million shares of the Company, generating net proceeds of approximately HK\$44.8 million. At the same time, the Group raised additional capital of US\$2.5 million (HK\$19.5 million) from an institutional investor for development of the ZoiPPE business.

**Looking ahead** to 2007, the Group is excited about the prospects of expanding its ZONE businesses within and beyond its current operations in the United States, Hong Kong and Singapore. ZONE will continue to organically grow its market share in these countries / areas while seeking acquisition targets, such as the WRLD Alliance transaction, that once integrated with the current operations can bring synergistic value to the Group. The Group will also take business development initiatives to expand the ZONE business model to other countries.

The Group has obtained additional funds for growth and development from those transactions in February. It considers that establishing a business presence and securing reliable local partners in the larger markets, including China and India, will be a priority for 2007, and during the year ZoiPPE will step up its efforts to enhance its technology robustness and scalability to improve user experience and to introduce new multimedia features and functionalities, while at the same time intensifying its promotional drive globally.