

## 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 2006.

### 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 the 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 telecommunication 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 telecommunications carrier. ZONE US operates in the consumer and commercial sectors as well as serving a number of independent local exchange carriers (ILECs) throughout the United States. ZONE US has developed a web-based interface ([www.zonetelecom.com](http://www.zonetelecom.com)) which supports management and service capabilities for its customers and its strategic distribution partners. ZONE US provides switched long distance voice services, IP-transport services, dedicated local and long-distance voice services, managed enhanced toll-free services, and enhanced voice and web conferencing services. In addition, ZONE US provides a number of data services including frame relay, international private lines, direct internet access and other IP-centric offerings.

In Hong Kong, ZONE Limited (“ZONE Hong Kong”), a wholly-owned subsidiary of the Company, is a telecommunication service provider licensed by the Telecommunications Authority of Hong Kong. By using a web-enabled platform ([www.zone1511.com](http://www.zone1511.com)), ZONE Hong Kong allows customers to choose from a range of value-added services including short messaging services, international call forwarding, virtual global calling cards and fax management services to complement its basic IDD services. ZONE Hong Kong continuously enhances its value-added services including offering conferencing, fax-to-e-mail and call back services to meet with the business needs of its corporate customers. Taking advantage of the latest IP-based technologies, ZONE Hong Kong is now able to offer Voice-over-Internet Protocol (“VoIP”) services with or without local telephone numbers, particularly targeting Hong Kong corporate customers with overseas presences.

In Singapore, ZONE Telecom Pte Ltd (“ZONE Singapore”), a wholly-owned subsidiary of the Company, is a telecommunication service provider licensed by the Infocomm Development Authority of Singapore. Besides offering basic IDD services, ZONE Singapore ([www.zone1511.com.sg](http://www.zone1511.com.sg)) also offers a host of value-added services that help customers’ businesses improve operation efficiencies.

In addition, ZONE Singapore has also launched various service offerings like GlobalDial and IP-based services to explore other market potentials and to better service its existing user base. It has also teamed up with partners to tap into the local payphone IDD market.

In December, the Group launched “ZoiPPE” ([www.zoippe.com](http://www.zoippe.com)), its latest global VoIP service, at the ITU Telecom World 2006. By installing a piece of software on their computers or mobile devices, ZoiPPE users can stay connected with their friends and family via PC-to-PC, PC-to-Phone, Phone-to-Phone, Short Message Service (SMS), Instant Messaging (IM) and email. Since its launch, ZoiPPE has endeavoured to enhance brand recognition and grow its user base by way of viral marketing as well as other co-branding / white-labelling partnerships and programmes.

A description of the principal activities of other principal subsidiaries is set out in note 11 to the financial statements.

## Segmental information

Analyses of the Group's turnover and contribution to operating results by geographical and business segments of operations for the year ended 31 December 2006 are set out in note 24 to the financial statements.

## Results and dividends

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 23.

The Board of the Company did not recommend the payment of a dividend for the year ended 31 December 2006 (2005: Nil).

## Group financial summary

A summary of results, assets and liabilities of the Group for the last five financial years is set out on page 56.

## Major customers and suppliers

In the year under review, the aggregate turnover attributable to the five largest customers of the Group accounted for approximately 15.8% of total turnover for the year, and sales to the largest customer included therein amounted to approximately 5.3%.

The aggregate purchases attributable to the five largest suppliers accounted for approximately 45.5% of total purchases for the year, and purchases from the largest supplier included therein amounted to approximately 21.8%.

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, owned 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 9 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 19 to the financial statements.

## Board of directors

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

### *Executive Directors:*

Richard John Siemens (*Chairman*)  
Kuldeep Saran (*Deputy Chairman*)  
Lim Shyang Guey

### *Non-executive Director:*

William Bruce Hicks

### *Independent Non-executive Directors:*

Shane Frederick Weir  
John William Crawford J.P.  
Gerald Clive Dobby

Biographical details of directors of the Company are set out on page 8 under the section titled "Board of Directors and Senior Management".

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the

## Report of Directors (continued)

“Listing Rules”) and the Company considers such directors to be independent.

In accordance with bye-laws 86 and 87 of the Company’s Bye-laws, Mr. William Bruce Hicks, Mr. Shane Frederick Weir and Mr. John William Crawford J.P. shall retire by rotation at the forthcoming annual general meeting and are eligible for re-election.

### Directors’ interests in securities

As at 31 December 2006, the directors and the chief executive of the Company and their respective associates had the following interests and short positions (if any) in the 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”)) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to section 352 of the SFO to be recorded in the register maintained by the Company, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules:

Name of director	Capacity	Number of Shares* held	Approximate percentage of shareholding
Richard John Siemens	Held by controlled corporations	107,000,200 (Note 1)	22.7%
Kuldeep Saran	Personal	341,200	0.1%
	Held by a controlled corporation	71,860,147 (Note 2)	15.3%
William Bruce Hicks	Personal	3,949,914	0.8%
	Held by a controlled corporation	67,962,428 (Note 3)	14.4%
Lim Shyang Guey	Personal	1,120,000	0.2%
Shane Frederick Weir	Personal	10,000	0.0%

\* “Shares” means ordinary shares of HK\$0.01 each in the share capital of the Company.

#### Notes:

- 7,000,000 Shares are beneficially owned by Siemens Enterprises Limited and 100,000,200 Shares are beneficially owned by Goldstone Trading Limited, both companies being controlled by Mr. Richard John Siemens.
- 71,860,147 Shares are beneficially owned by Future (Holdings) Limited, a company controlled by Mr. Kuldeep Saran.
- 67,962,428 Shares are beneficially owned by Great Wall Holdings Limited, a company controlled by Mr. William Bruce Hicks.

All interests disclosed above represent long positions in the shares of the Company and there were no underlying shares held by directors as at 31 December 2006.

Save as disclosed above, as at 31 December 2006, none of the directors, the chief executive of the Company 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) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which are deemed or taken to have been under such provisions of the SFO), or which are required pursuant to section 352 of the SFO to be recorded in the register referred to therein, or which are required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

#### **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 entitled "Share option schemes", at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable any director or the 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, the chief executive of the Company nor any of their spouses or children under the age of 18 had any interests in, or had been granted, any rights 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 rights during the year.

#### **Directors' service contracts**

The service contracts with all non-executive directors, including the independent non-executive directors, will expire on 31 December 2008 or, in the case of Mr. Gerald Clive Dobby, on 31 December 2009 and thereafter will be renewable for fixed terms of three years provided that either party may terminate the appointment by giving to the other party not less than one month's notice in writing.

As at 31 December 2006, 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 contracts of significance**

No contracts 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.

#### **Substantial shareholders**

As at 31 December 2006, according to the register kept by the Company pursuant to section 336 of the SFO and so far as is known to the directors or the chief executive of the Company, the following persons (other than the directors or the chief executive of the Company) had interests and short positions (if any) in the shares and underlying shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of shares carrying rights to vote in all circumstances at general meetings of the Company:

## Report of Directors (continued)

Name of shareholder	Number of Shares held	Approximate percentage of shareholding
Goldstone Trading Limited	100,000,200*	21.2%
Future (Holdings) Limited	71,860,147*	15.3%
Great Wall Holdings Limited	67,962,428*	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. Kuldeep Saran (being held through Future (Holdings) Limited) and Mr. William Bruce Hicks (being held through Great Wall Holdings Limited) as disclosed in the notes to the description under the heading of "Directors' interests in securities" above.*

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

Save as disclosed above, as at 31 December 2006, according to the register kept by the Company pursuant to section 336 of the SFO and so far as is known to the directors and the chief executive of the Company, no other person (not being a director or the chief executive of the Company) had any interests or short positions in the shares, underlying shares or debentures of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, nor were there any persons, directly or indirectly, interested in 10% or more of the nominal value of any class of shares carrying rights to vote in all circumstances at general meetings of the Company.

### Share capital

Details of movements in the Company's share capital during the year are set out in note 17 to the financial statements.

### Share option schemes

Details of the share option schemes of the Company and rules and procedures for share option schemes of subsidiaries of the Company are set out in note 18 to the financial statements.

### Particulars of principal subsidiaries

Particulars regarding the principal subsidiaries of the Company are set out in note 11 to the financial statements.

### Liquidity

As at 31 December 2006, the Group managed to maintain stable liquidity with cash and cash equivalents of approximately HK\$101,909,000 (2005: HK\$61,218,000).

### Bank borrowings

Details of bank borrowings as at 31 December 2006 are set out in note 15 to the financial statements.

### Retirement benefit schemes

Details of the retirement benefit schemes operated by the Group are set out in note 1 to the financial statements.

### Remuneration policies and employee relations

As at 31 December 2006, the Group had 145 employees (2005: 136 employees) in Hong Kong and overseas. The Group's total staff costs amounted to HK\$71.3 million (2005: HK\$64.9 million). Pursuant to

the share option schemes adopted by the Company, share options may be granted to, among others, eligible employees of the Group to subscribe for shares in the Company under the terms and conditions stipulated therein. Altogether, 147,500 share options remained outstanding as at 31 December 2006. The Group maintains good relationships with its employees and 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 employees 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 payments, the Group also offers other fringe benefits, including provident fund and medical benefits, to its employees.

### **Purchase, sale or redemption of the Company's listed securities**

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **Pre-emptive rights**

There are no provisions 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 laws in Bermuda.

### **Public float**

Based on information that is publicly available to the Company and to the best knowledge and belief of the directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued share capital as required under the Listing Rules.

### **Auditors**

The financial statements of the Company for the year ended 31 December 2006 have been audited by Messrs. Moores Rowland Mazars, *Chartered Accountants, Certified Public Accountants*.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Moores Rowland Mazars as auditors of the Company.

By Order of the Board

Lau Wai Ming Raymond  
*Company Secretary*

23 March 2007