

Chairman's Statement

The 2005 year marked a significant milestone as the Group recorded a profit of HK\$47 million, compared to a net loss of HK\$132 million in 2004. It is worth noting that, not only did the Group on a consolidated basis achieve profitability, but all of the Group's ZONE telecommunications businesses in the United States, Hong Kong and Singapore managed to individually record profitable results for the year.

During recent months, the Group has not only reached profitability but has also made measurable progress in two key strategic areas: the expansion of its geographical presence in key markets in North America and in Asia and the development of its existing service offerings to include other Internet Protocol (IP)-related telecommunication products and services.

While the Group continues to grow its market share in the United States through organic growth, it has also actively explored a variety of acquisition opportunities. In January 2006, the Group announced that its wholly-owned US subsidiary, ZONE Telecom, Inc., executed a sale and purchase agreement to acquire certain assets in connection with the provision of long distance telecommunication services in the United States. This acquisition, which was approved by the Company's shareholders on 3 March 2006, is expected to help further boost the Group's market position and distribution network in the United States, including securing as long-term customers certain independent local exchange carriers (ILECs) and telephone companies across the Central and North-western states and other regions. In addition to broadening the Group's revenue base and expanding its geographical presence in the US, this acquisition is expected to improve overall efficiencies through economies of scale and consolidation of resources. The Group will continue to explore other merger or acquisition targets that are synergistic to and enhance the value of its present US business.

The Group's ZONE operations in the US made steady advances in rolling out its Voice over Internet Protocol (VoIP) products and services. On the consumer front, rather than employing a mass marketing approach to acquire customers, which usually incurs substantial upfront expenses, ZONE's strategy involves promoting VoIP products through channel partners with extensive

distribution networks, targeting niche segments of the market and utilising telesales marketing to convert current ZONE consumer product users. ZONE has also continued to sign up more leading colleges and universities for its IP-transport offerings.

In Asia, the Group's ZONE Hong Kong operations are further expanding in the VoIP-related arena. ZONE Hong Kong recently submitted its application for a Services-Based Operators (SBO) Licence to provide VoIP services. Also, throughout 2005, ZONE Hong Kong tested the VoIP market by providing products and services using a VoIP service platform developed by its technology partner which has R&D facilities in Shenzhen and Beijing. In December, ZONE Hong Kong agreed to acquire all intellectual property rights to the VoIP service platform being developed by this technology partner. ZONE's continuing involvement and investment, together with the expertise and experience of its technology partner, will help enhance the service platform while providing a stepping stone for the Group to establish a presence in China. This initial presence in those locations in China will provide ZONE with a base for exploring and participating in related business opportunities and also for extending its presence into other regions of China.

During 2005, ongoing improvements in operating efficiencies and steady revenue growth resulted in ZONE Singapore achieving another year of record profits. ZONE Singapore has also started to expand its telecommunication services beyond the shores of Singapore through services such as "GlobalDial". In the meantime, ZONE Singapore is keeping a close watch on the latest telecommunications regulatory developments in the region, particularly in India where regulators have recently made announcements on the licensing framework for the provision of voice services. The Group, at an opportune time, will take advantage of ZONE Singapore's proximity to break into this potentially lucrative market.

Looking ahead, the Group foresees that its present core business will continue to grow while increased contributions are expected from its recent acquisitions and also from the introduction of new products and services. While the Group endeavours to increase revenue through organic growth and acquisitions, it will

also place priority in the coming year on ensuring that improvements in gross margins and operational efficiencies are maintained in order to remain profitable in the competitive communications space. The Group is optimistic that it can expand further in the United States, where it is beginning to establish a substantial presence, and hopes to make significant penetration into the two largest emerging markets, China and India.

On behalf of the Board, I would like to take this opportunity to express our sincere thanks to Mr. Matthew Rosenberg, who resigned as an Independent Non-executive Director in November 2005, for his advice and contributions to the Group and to welcome Mr. Gerald Dobby who joined the Board as an Independent Non-executive Director in December 2005.

I would also like to thank our customers, shareholders, business associates and professional advisors for their support and extend our appreciation to all employees for their hard work, dedication and commitment to the Group.

A handwritten signature in black ink, appearing to read 'R. Siemens', with a long horizontal flourish extending to the right.

Richard John Siemens
Chairman

24 March 2006