

Business Review

During the year under review, the Group returned to profitability by recording a net profit of HK\$47.1 million. The Group continues to strive for steady revenue growth while consistently improving operational efficiencies. Its ZONE telecommunications companies (“ZONE”) in the United States and in Asia further expanded their existing businesses with the introduction of new products and services and enlarging their geographical reach beyond historic territories.

ZONE’s operations in the United States (“ZONE US”) recorded its first annual operating profit. Net profit from operations for 2005 was HK\$21.7 million compared to a net loss from operations of HK\$25.8 million in 2004. As a profitable company with a strong balance sheet, ZONE US has established a solid financial foundation for future revenue growth and market expansion. In the coming year, ZONE US is expected to maintain its profitability while focusing on revenue growth in three key segments, namely, consumer, corporate and wholesale.

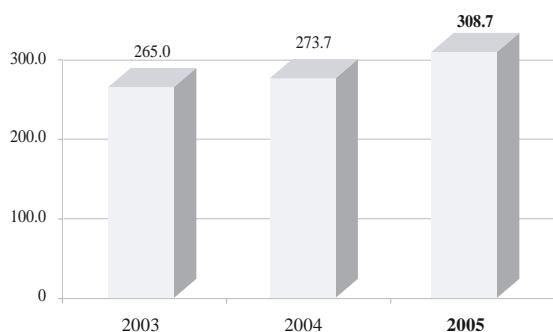
ZONE US will continue to promote its consumer Voice over Internet Protocol (“VoIP”) products and services through channel partners and resellers. As for the corporate market, ZONE US’s experienced sales teams, located in major US cities, are expected to increase market share in this sector. The recent ZONE US’s acquisition of certain telecommunication services assets as approved by the Company’s shareholders on 3 March 2006 (the “Acquisition”) will not only secure the Acquisition vendors’ customer contracts, but will also bring the necessary expertise and resources required to further expand into the wholesale market targeting independent local exchange carriers (ILECs) throughout the United States.

At the end of 2005, ZONE Hong Kong and ZONE Singapore (collectively, “ZONE Asia”) extended their presence beyond their respective territories by acquiring certain state-of-the-art VoIP-related technology that is being developed by a technology partner of ZONE Hong Kong based in Shenzhen, China. The technology platform is currently used by ZONE Hong Kong for its VoIP services and is also used by a number of channels and resellers in different parts of China for VoIP-related services. This R&D team is currently developing a number of VoIP products, including peer-to-peer (P2P) “softphone” which ZONE Hong Kong plans to launch in the second half of 2006.

While the international direct dialling (“IDD”) business, despite ongoing competitive pressure from incumbent telecom operators, generates revenue and profitability at anticipated levels, and remains the key revenue driver for ZONE Hong Kong, the Group foresees larger revenue contributions in the coming years from the various newly introduced services, including VoIP-related products and services. With VoIP technology, ZONE Hong Kong is able to capitalise on competitive IDD rates and provide IDD services to both wholesale and retail customers outside Hong Kong.

In January 2006, Hong Kong’s Office of the Telecommunications Authority (“OFTA”) announced the introduction of a Services-Based Operator (“SBO”) Licence to regulate the provision of VoIP services in the city. This is seen as a positive step towards defining the regulatory framework governing Hong Kong service providers for the provision of VoIP services. ZONE Hong Kong submitted its application for an SBO Licence and is expected to be awarded this licence in the near future. ZONE Hong Kong plans to be ready to launch its VoIP services on a commercial basis once the licence is awarded and negotiations with the preferred Fixed Telecommunications Network Services (FTNS) provider, relating to hosting and interconnection charges, are completed.

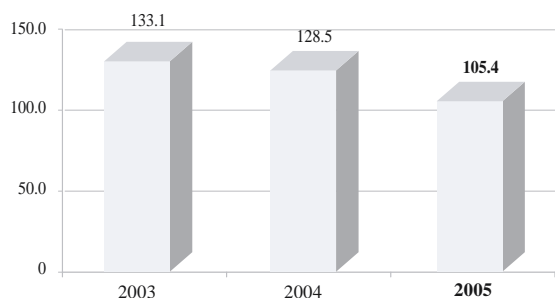
**Turnover of ZONE US
(HK\$ millions)**



ZONE Singapore recorded another year of steady revenue growth and an increase in net profit during 2005. Concerted sales and marketing efforts helped to raise revenues and at the same time better cost management and effective negotiations with carriers have resulted in improved margins. While it remains focused on serving the corporate segment of the market, ZONE Singapore has also introduced several innovative marketing promotions including “No Talk, No Pay” targeting the consumer market, and new service offerings such as “GlobalDial” that have attracted customers from neighbouring countries around Singapore. ZONE Singapore has built strong brand awareness and acceptance in the Singaporean community as a company that not only provides quality and value but also takes pride in its ability to provide products and services tailored to each customer’s specific needs.

Looking ahead, the Group will continue to stay focused on increasing organic revenue growth, improving efficiencies and maintaining profitability for the coming year. While growth is expected from the existing core businesses and through the introduction of other new products and services, the Group will also pursue additional potential acquisition targets, both in the United States and Asia, which can make material contributions to the Group’s turnover and profitability, and increase shareholder value.

Turnover of ZONE Asia*
(HK\$ millions)



* ZONE Hong Kong and ZONE Singapore