

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 2005.

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 telecommunications 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 telecommunications 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 (residential) and the commercial (corporate and wholesale) sectors. ZONE US has developed a web-based interface (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), 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 VoIP services, 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) also offers a host of value-added services that help customers’ businesses improve operation efficiencies.

A description of the principal activities of other principal subsidiaries is set out in note 12 to the financial statements.

Segmental information

Analyses of the Group’s turnover and contribution to operating results by business and geographical segments of operations for the year ended 31 December 2005 are set out in note 25 to the financial statements.

Results and dividends

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 20.

The Board of the Company does not recommend the payment of any dividends for the year ended 31 December 2005 (2004: 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 51.

Major customers and suppliers

In the year under review, the aggregate turnover attributable to the five largest customers of the Group accounted for approximately 10.1% of the Group's total turnover for the year, and sales to the largest customer included therein amounted to approximately 2.9%.

The aggregate purchases attributable to the five largest suppliers accounted for approximately 62.1% of the Group's total purchases for the year, and purchases from the largest supplier included therein amounted to approximately 24.3%.

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, own 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 11 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 20 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

(*appointed on 16 December 2005*)

Matthew Brian Rosenberg

(*resigned on 1 November 2005*)

Biographical details of directors of the Company are set out on page 7 under the section entitled "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 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, Messrs. Richard John Siemens, Kuldeep Saran, Lim Shyang Guey and Gerald Clive Dobby shall retire by rotation at the forthcoming annual general meeting and are eligible for re-election.

Report of Directors (continued)

Directors' interests in securities

As at 31 December 2005, 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 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	100,631,627 (Note 1)	21.4%
William Bruce Hicks	Personal	2,749,914	0.6%
	Held by a controlled corporation	67,962,428 (Note 2)	14.4%
Kuldeep Saran	Personal	341,200	0.1%
	Held by a controlled corporation	67,632,428 (Note 3)	14.4%
Lim Shyang Guey	Personal	1,020,000	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:

- 2,400,000 Shares are beneficially owned by Siemens Enterprises Limited and 98,231,627 Shares are beneficially owned by Goldstone Trading Limited, both companies being controlled by Mr. Richard John Siemens.
- 67,962,428 Shares are beneficially owned by Great Wall Holdings Limited, a company controlled by Mr. William Bruce Hicks.
- 67,632,428 Shares are beneficially owned by Future (Holdings) Limited, a company controlled by Mr. Kuldeep Saran.

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 2005.

Save as disclosed above, as at 31 December 2005, 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 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 arrangement 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) 31 December 2006 and thereafter will be renewable for fixed terms of three years provided that either party may terminate the appointment thereof by giving to the other party not less than one month's notice in writing.

As at 31 December 2005, 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 2005, according to the register kept by the Company pursuant to section 336 of the SFO and so far as was 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 would fall 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	98,231,627*	20.9%
Great Wall Holdings Limited	67,962,428*	14.4%
Future (Holdings) Limited	67,632,428*	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 of which Mr. Richard John Siemens is a director), Mr. William Bruce Hicks (being held through Great Wall Holdings Limited of which Mr. William Bruce Hicks is a director) and Mr. Kuldeep Saran (being held through Future (Holdings) Limited of which Mr. Kuldeep Saran is a director) 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 2005, 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 18 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 19 to the financial statements.

Particulars of principal subsidiaries

Particulars regarding the principal subsidiaries of the Company are set out in note 12 to the financial statements.

Liquidity

As at 31 December 2005, the Group managed to maintain stable liquidity with cash and cash equivalents of approximately HK\$61,218,000 (2004: HK\$47,194,000).

Bank loans, overdrafts and other borrowings

The Group had no bank loans, overdrafts or other borrowings as at 31 December 2005 and no interest was capitalised by the Group during the year.

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 2005, the Group had 136 employees (2004: 144 employees) in Hong Kong and overseas. The Group's total staff costs amounted to

HK\$64.9 million (2004: HK\$72.5 million). Pursuant to the share option schemes adopted by the Company, share options might 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 2005. The Group has maintained 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 2005 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

24 March 2006