

Belize Telemedia Limited

Report of the Directors

INTRODUCTION

This Report of the Directors to the Shareholders of Belize Telemedia Limited covers the fiscal year from April 1, 2008 to March 31, 2009.

Shareholders of the Company should note that this Report was produced by a Board of Directors that is entirely different from the Board that was in place during the fiscal year to which this Report relates. Substantial changes have taken place in the operations and focus of the Company since the new Board was installed, some of which result from the coming to light of information on activities undertaken and on Telemedia's business strategy during the period under review as well as during prior periods, and which affected the Company's operations and financial results. Some of the more important developments in this area will be addressed in the Chairman's Report to the annual general meeting.

This Report is divided into two main sections. The **Operations Review** examines the main developments in the Company's business operations over the fiscal year, while the **Financial Review** assesses the impact of business operations on the Company's finances. The audited financial statements of Belize Telemedia Limited for the year ended March 31, 2009, together with the Report of the Auditors, form an integral part of this Report.

OVERVIEW

During the fiscal year ended March 31st 2009, the Company directed most of its efforts towards the roll out of two major networks, which were aimed specifically at expanding mobile and fixed telecommunication services to areas that were not previously served, and more generally at improving the quality of telecommunications services. A new GSM 850/1900MHz EDGE network was installed in order to expand significantly DigiCell coverage while providing additional capacity, features and functionality for customers. The new CDMA 450 network is being rolled out to provide fixed wireless telephone service along with high-speed Internet, particularly to rural and outlying communities. This network expansion programme, along with other investment in new and emerging technology, systems and software, were all a part of the strategic direction taken in upgrading the quality and reliability of telecommunications services across the nation.

To complement this improvement programme, Telemedia also expanded and upgraded its transmission network to increase capacity and build additional redundancy in its infrastructure. The Company partnered with Belize Electricity Limited to utilise that Company's power transmission infrastructure for its fiber-optic network, initially linking Belize City to Belmopan. Additionally, a much larger fiber cable was being installed between Belmopan and Benque Viejo to increase transmission capacity along the entire western route, all the way to the western border.

With the completion of the two new networks and additional transmission capacity, the Company is better poised to respond to the added demands of customers and prospective investors. Telemedia believes that these new developments will significantly improve the Company's competitive edge, and will make it possible to provide an expanded range of telecommunication-based business, residential and social networking services to a broadened customer base.

While the Company's expansion and development projects were underway, however, there was substantial deterioration in the financial results during the year to March 31, 2009 compared with the previous three years. Net Income declined compared with the previous twelve months, due to the combined result of some reduction in consumer spending caused by the global recession, increased use of VoIP services from external telecommunications service providers, and increased competition in the local mobile cellular market. Expenditure, on the other hand, rose noticeably, reflecting higher operating costs, increased legal and advisory fees, higher taxation, and increased financial expenses as a result of increased borrowing. Company liquidity declined and the debt/equity ratio rose as a result of a number of financial transactions, including a large dividend payment in late 2008, and debt service payments on a loan that was contracted by the Company to purchase its own shares, a transaction which did not provide any operational benefit to the Company. In addition, the new Directors have had to provide for the payment of taxation on revenues that the Company had previously failed to report, and the accounts for the year prior to the one under review have had to be restated to recognize this failure.

With the recent change in ownership of Telemedia and the availability of some records covering the period, it is now become evident that the increased competition in the mobile market was facilitated by special arrangements that were deliberately provided by the then owners of Telemedia which afforded SpeedNet (subsequently revealed to be a company then controlled by the same principals as Telemedia) unfair competitive advantage over Telemedia. This adversely affected Company revenue, both through the provision of services to SpeedNet below cost and through loss of market share as a result of slower Telemedia response to changes in market demand compared with SpeedNet, and helped to increase expenditure.

OPERATIONS REVIEW

During the fiscal year under review, Telemedia formed an internal team dedicated to work along with consultants that were tasked to improve the entire operations of the Company. This group focused on internal efficiencies in network development, human resources, customer services and service delivery along with overall project management. These internal improvements, along with additional investment in staff training, network upgrades and overall quality standards, all contributed to improving the quality and range of services to customers.

NETWORK DEVELOPMENT

The completion of the new GSM 850/1900 MHz EDGE network is expected to bolster substantially the reach, reliability, performance and capabilities of the DigiCell service. Directors believe that this new network will reinforce the Company's reputation for offering the best in communication services, while helping Telemedia to maintain market leadership in mobile communications. With the added coverage and capacity provided by this new network the Company was able to offer customers new and exciting services, special deals, and a number of special promotions.

The installation of the new CDMA 450 network is expected to be completed during the current fiscal year. It is expected that more than 5,000 customers in rural and outlying areas will benefit from fixed telephone and high-speed internet services which were previously not available in those localities.

As an important part of the development programme, the Company's fiber-optic infrastructure was expanded with additional fiber cables being installed in the northern, western and southern parts of the country. During 2009, the first ever optical ground wire (OPGW) link in the country was installed between Belize City and Belmopan to provide additional capacity and redundancy to our Capital City. Additional OPGW links were installed in the southern part of the country to serve Dangriga, Punta Gorda, Placencia and Independence.

Telemedia replaced telephone-exchange equipment in the rural communities of Caye Caulker, Progreso, San Narciso, Patchakan, Guinea Grass and San Pablo with new state of the art telecommunications switches, providing customers in those areas with the same features and functionality as customers throughout the rest of the country currently enjoy.

CELLULAR SERVICES

With the increasing demand for mobility in the market, and with over 32% of revenues coming from mobile telecommunications services, the Company focused on retaining and expanding its DigiCell customer base by improving the quality of service, expanding cellular coverage, and by continuing to offer many new services. Much of the new offering were made via promotional packages and incentives, enabling customers to obtain significant savings and greater value for their money. DigiCell Pre-Paid customers for example, enjoyed double and triple-day promotions providing them bonus credits of up to three times the value they recharged. DigiCell Premier Customers enjoyed many great benefits, including increased value with cheaper calling plans and much cheaper text bundles. One outstanding addition to the Premier offerings included mobile internet roaming, enabling email access and internet browsing using their DigiCell phones while travelling abroad.

Mobile cellular services were continuously being enhanced with new offerings to meet the demands of the market, especially from young people. Other DigiCell services that were launched during the year include D-Loop, DigiCell Shout, DigiCell Triangle and DigiCell Messenger, all of which enabled customers to enjoy an interactive communications experience, together with social networking involving family and friends.

With all these additional services to DigiCell customers, the Company's newly launched Online Fone-Top and Fone Top-Up billed services allowed prepaid customers the convenience of topping-up and maintaining their credit levels on the go.

The Company's promotional efforts contributed to a 7.2% growth in the mobile phone customer base during the year, with separate active telephone numbers totaling 155,001 in respect of the DigiCell service, and 6,782 in respect of the analogue service at year-end.

BILLING AND CUSTOMER CARE

On April 1st 2008, Telemedia introduced a new "Cycle Billing" process, specifically aimed at reducing the waiting time for customers paying bills or making billing inquiries, and at improving the overall efficiency of customer service operations. With this new billing process, customers are billed in two groups; one at mid-month and the other at month-end.

The Company also brought on-stream its "e-Service", allowing customers to go online and view, print ,and pay bills; view call details and usage; subscribe to

new services; add features to existing services; obtain support for services; and update personal information. This e-Service is a convenient way for customers to access customer services support from the comforts of their home. Telemedia also introduced its new “e-Directory”, which allows customers online access to the telephone directory.

INTERNET SERVICE

The demand for high-speed internet service increased significantly as more and more customers increased their reliance on fast internet connection for business, education and research. During the year, the number of high-speed internet connections rose from 6,374 to 7,958, with the number of DSL connections rising by 713 while the number of dial-up and dedicated connections increased by 871. As the ongoing GSM and CDMA projects are implemented it is expected that not only will the number of DSL connections continue to rise, but that there will be substantial growth in wireless internet access as well.

During the year the Company maintained and further expanded its free internet service to schools, a commitment made since 1995 when internet service was first introduced to Belize.

FIXED LINES

Despite the Company's investment in equipment upgrades to improve service quality, the total number of fixed telephone lines declined from 33,316 to 31,168 during the year to March 2009. The continuous migration to mobile cellular service is the contributing factor for this decline. The implementation of the Company's HomeFone and BizFone service offerings was intended to emphasize the value of fixed-line connections to the general public. Under these offerings, residential and business customers were able to choose from among different calling plans, ranging from free nights and weekend minutes to unlimited monthly usage. Bundled with these plans were the doubling of internet speeds, increased discounts on cellular calls and reduced international calling tariffs.

During the year, Telemedia continued to implement its payphone installation policy throughout the country, despite the fact that payphones remain an unprofitable service for the Company. Some 1,034 payphones are currently installed and maintained by Telemedia.

VoIP SERVICES

Voice over Internet Protocol (VoIP) is a general term for a family of transmission technologies for delivery of voice communications over the internet rather than through the public switched telephone network (PSTN). Since about 2004, with sustained growth in broadband internet coverage and speeds, private telecommunications suppliers have been providing mass-market VoIP services to the general public, beginning in North America and Europe, with the size of the markets in those areas allowing many of the services to be provided free to individual consumers based on revenue being obtained from advertising and other services.

The global coverage of the internet means that VoIP services are in principle available wherever internet connection speeds allow. In addition to the use of computers to make VoIP calls, dedicated VoIP phones are now available which allow calls without the use of computers. The effect for Telemedia is that VoIP service providers are able to offer services directly to customers in Belize without being licensed or without paying any taxes on such services, and without contributing in any way to the maintenance of the infrastructure and facilities, including staffing, that make VoIP and PSTN operations possible.

The VoIP issue is of concern to telecommunications services providers like Telemedia because it not only involves the free use of equipment and facilities that need to be maintained, but it has the potential to reduce substantially revenue from the PSTN system, both in respect of international as well as domestic services.

The Public Utilities Commission is aware of the situation and has expressed concern over the potential impact on telecommunications providers in Belize of ongoing access by domestic consumers to the services offered by external VoIP providers.

In order to address the situation Telemedia has adopted a two-pronged approach. In order to safeguard the business of the Company, Telemedia has installed filters on its external telecommunications links which have the effect of blocking VoIP use by external VoIP service providers. On the other hand, in order that customers in Belize have access to VoIP technology, Telemedia has launched "Webtalk", its own version of the service, which allows Telemedia customers to make voice and video calls over the internet.

SOCIAL CONTRIBUTIONS

In addition to focusing on developing telecommunication services for its valued customers, in 2009 the Company also directed its efforts in maintaining its

reputation as a good corporate citizen by contributing to community development through a number of different social initiatives and activities.

The Company invested more than \$100,000 in the adoption of the Princess Royal Park in Dangriga, making this the fourth park that the Company is upgrading and maintaining. The new park is equipped with new playground equipment and other needed facilities, including bathrooms and lighting. On the same day that the new park facilities were inaugurated, the Company partnered with the Ministry of Health to launch a pilot project to facilitate telemedicine in Belize. Telemedia provided a free high-speed internet connection to the Southern Regional Hospital, enabling personnel in this hospital to utilize video-conferencing arrangements to communicate with medical colleagues elsewhere in Belize and abroad.

During the year the Company's scholarship programme continued to be one of the biggest and most successful private educational support programmes in the country, with 32 new scholarships being awarded to deserving and academically qualified students under its High School Scholarship Programme. Since the programme's inception, the Company has so far invested close to \$1 million in the education of over 400 Belizean youths countrywide.

In October 2008, the Company undertook a special renovation project which lasted three months and refurbished the Lloyd Coffin Pre-school in Belize City. In this initiative Telemedia committed \$150,000 to completely renovate and upgrade the school building, which also houses a library and health center. In the same month the Company commemorated the second year of its Adopt-a-School Programme. At a special ceremony at Bethel Primary School in Belize City, the Company launched a Breakfast Feeding Program, which provides a healthy breakfast to 30 students at Bethel every school-day. The Company also donated appliances and other items needed to implement and maintain the feeding programme. In addition, Telemedia signed-on 25 employees of the Company to a mentorship programme aimed at supplementing literacy training at the school.

Telemedia joined with the rest of the country in contributing to the flood recovery efforts that assisted those who were affected by floods in October 2008. Company contributions included a \$10,000 donation to the Cayo Disaster Relief fundraising appeal organized by the National Emergency Management Organization (NEMO). Telemedia employees contributed several boxes of food items which were handed to the Belize Red Cross for distribution.

In November 2008, Telemedia donated \$15,000 to the Youth Business Trust Belize (YBTB). This was the Company's fourth donation as part of its commitment to the development of youth enterprise programmes and young entrepreneurs in Belize.

The Company also continued to expand its “Internet to Schools” programme, which provides free high-speed internet service to primary, secondary and tertiary institutions throughout the country. The programme currently provides continuous access to the internet, 7 days a week, free of cost to students and teachers in more than 200 schools.

Telemedia’s Learn N Phone Program also expanded over the year with new phones either being provided or old ones replaced, allowing for continuous, safe and easy means of communication by students while at school and away from their families. The Learn N Phone Program is fully subsidized by Telemedia and consists of a special payphone placed within a school’s compound that allows children to have convenient and direct communication with their families while at school. Presently there are more than 135 schools countrywide on the programme.

Sponsorships of both the Telemedia Female Softball Team and Swoosh Cycling Teams continued during the year as the teams continued to represent the Company well in their respective sporting disciplines.

The Company was also proud to sponsor for the 4th consecutive year the Annual Belize Band Fest which promoted the musical talents of many young Belizeans.

In the fiscal period under review, Telemedia also made significant contributions to a number of community-support organizations, including the Belize Red Cross, Rotary Club of Belize, and Lifeline Foundation.

OTHER BUSINESS

In June 2008, the Belize Telemedia Limited Group acquired majority ownership of Great Belize Productions Limited, which operates the Channel 5 television station.

During the year Telemedia continued to rely on its dedicated employees who contributed significantly in upgrading key areas of Company facilities and operations, maintaining equipment and services, and providing support and assistance to the Company's customers, enabling Telemedia to maintain its leadership position in the provision of telecommunications services in Belize.

FINANCIAL REVIEW

The following represent audited figures for the year ended March 31, 2009.

Income Statement (Audited)

All Figures BZ\$000's	Financial Year 2008/9	Financial Year 2007/8	Variance Fav / (Adv)	% Variance Fav / - Adv
Gross Revenue	152,201	156,938	(4,737)	-3%
Operating Expenditure and Depreciation	(131,314)	(122,256)	(9,058)	-7%
Net Interest Income	(919)	492	(1,411)	-287%
Net Earnings	19,968	*35,174	(15,206)	-43%
Earnings per share	41 cents	78 cents	(37 cents)	-47%

* The net earnings reported for 2007/8 was restated and reduced by \$2.6 million which represent tax accrual on international settlements for the year 2007/8 that was not reported.

Revenue

During 2009, the Company experienced a net decrease in revenue compared to the prior year. Based on the results, the Company experienced an overall decrease of 3% in its core revenue streams, which was impacted by increased competition from Speednet, increased VoIP usage for long distance calls and a general decrease in consumer spending. Revenue from the fixed-line revenue streams declined by \$4.8 million, while GSM revenue stagnated, compared with strong growth during the previous year, mainly as a result of a fall in post-paid cellular revenue, although revenue from pre-paid cellular usage rose. Line access and maintenance charges showed an increase of \$1.1 million over the prior year. Internet and data services' revenue continued to outperform preceding years' collections by as much as 10% each year, with the 2009 results showing a rise of \$1.9 million, indicating strength in this business area. Revenue from international settlements declined by \$2.9 million (19%), compared with an increase of 12% during the preceding fiscal year, most likely reflecting the effects of the recession on calls to Belize from abroad.

Call substitution continued to take place, with cellular calls being substituted for fixed-line national calls. The reduction in fixed lines and increased use of pre-paid services has resulted in a drop in fixed line national call revenues originating from post-paid customers for the fifth year in succession.

Expenditure

During 2009, the Company experienced a net increase in expenses of \$9 million or 7% over the prior year. The major expenses contributing to the increase were increases in staff expenses by 4%, electricity by 11%, maintenance by 26% (primarily due to increased maintenance for towers and related facilities), legal and advisory expenses by 21% and an increase in taxation and related charges by 31%. These increases together accounted for \$15 million of the increases in expenses. The increase in taxation of \$7.2 million over the prior year was the most significant for the year and included additional penalties and charges levied by the Income Tax Department for default of payment of tax when due and the effect of the increase in the business tax rate on the Company from 19% to 24.5% effective January 2009.

A reduction in depreciation expenses of \$6 million or 21% from the previous year offset the increases in expenses for the year. Depreciation expenses for the previous year had been higher than normal because of an accelerated depreciation policy adopted by the Company on Siemens equipment that was slated for replacement by the GSM and CDMA networks in fiscal 2010.

Net financial costs increased by \$1.4 million; this was primarily caused by a reduction of interest income during the year when the Company's fixed deposits were broken to help pay dividends in November 2008, and by the full effect of interest charges on US\$22.5 million borrowed from a subsidiary of Belize Bank Limited to purchase shares in Telemedia held by an entity overseas.

Balance Sheet (Audited)

All Figures BZ\$000's	Financial Year 2008/9	Financial Year 2007/8	Variance Fav / (Adv)	% Variance Fav / - Adv
<u>ASSETS</u>				
CURRENT ASSETS:	73,292	119,858	(46,566)	-39%
PROPERTY, PLANT AND EQUIPMENT - Net	223,047	198,374	24,673	12%
OTHER LONG-TERM ASSETS	15,248	37,067	(21,819)	-59%
TOTAL	311,587	355,299	(43,712)	-12%
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>				
CURRENT LIABILITIES:	95,351	60,066	35,285	59%
LONG-TERM DEBT	39,405	55,971	(16,566)	-30%
Total liabilities	134,756	116,037	18,719	16%
SHAREHOLDERS' EQUITY:	176,831	239,262	(62,431)	-26%
TOTAL	311,587	355,299	(43,712)	-12%

Financial Ratio Analysis	Financial Year 2008/9	Financial Year 2007/8	Variance Fav / (Adv)	% Variance Fav / - Adv
Current Ratio	0.77	2.00	(1.23)	-61%
Debt to Equity	0.76	0.48	(0.28)	-57%
Return on Assets	6%	10%	(0.03)	-35%
Return on Equity	11%	15%	(0.03)	-23%
Return on Sales	13%	22%	(0.09)	-41%

During 2009 the working capital ratio deteriorated to 0.77:1 from 2.0:1 in the previous year. While trade receivables and inventories remained stable during 2009, the major decrease in working capital is mainly attributed to a cash dividend of \$70 million paid to shareholders in November 2008.

During 2009, capital additions totaled \$46 million; this was mainly attributed to investment in the ongoing network expansion projects intended to improve service coverage and reliability.

At the end of March 2009, Telemedia's debt to equity ratio stood at 3:4 versus 2:4 reflecting a higher rate of debt compared to prior year. The payment of the \$70 million dividend in 2008 significantly impacted the ratio for 2009 as this decreased the Company's equity.

For the year ended March 31, 2009, the external auditors issued a qualified audit report due to issues relating to failure to properly provide for taxation and to lack of evidence in the Company supporting the consolidation of a subsidiary.

Cash and Cash Equivalents

At the end of March 2009, cash on hand decreased by \$34 million compared with the situation one year earlier. The decrease in cash was mainly attributed to the large cash dividend payment of \$70 million in November 2008. Despite the large dividend payment, the Company was still able to generate positive cash flows during the year.

Shareholder Returns

For the fiscal year ended 2009, net income decreased by \$15.2 million from \$35.1 million achieved in the previous year to \$19.6 million. In consequence, earnings per share decreased to 41 cents from 78 cents per share from the previous year.

Despite the net inflow to the Company from profits, net shareholder equity declined sharply over the year, mainly as a result of the large \$70 million dividend payout to shareholders in November 2008.

Telemedia to March 2009 achieved a return on equity of 11%. This was as a result of the decrease in net income over the previous year and primarily related to the contraction of revenues and the increase in expenses over the previous period.

Share Capital Movements

During 2009, no significant share capital movements occurred.

DIRECTORS

As at March 31, 2009, The Board of Directors of Belize Telemedia Limited for the financial year 2008-09 was comprised of Rocky Reef Ventures Limited, Shire Holdings Limited, Mr. Ediberto Tesucum, Mr. Philip Osborne, Mr. Philip Zuniga, Seascope Holdings Limited, and Mr. Keith Arnold who was also the Chairman of the Board. For that reporting period, the Board of Directors appointed an Executive Committee to manage Telemedia on a day to day basis, comprised of Mr. Dean Boyce, Chairman of the Executive Committee, Mr. Keith Arnold, Mr. Ediberto Tesucum and Mr. Philip Osborne.

On August 25, 2009, the Government of Belize acquired majority shareholding of the Company and appointed a new interim Board of Directors, comprising Mr. Nestor Vasquez, Mr. Alan Slusher, Mr. Anwar Barrow, Dr. Carla Barnett, Dr. Manuel Esquivel, Mr. Ambrose Tillett, Col. George Lovell (Retd.), and Ms. Audrey Wallace. Mr. Nestor Vasquez was also appointed Chairman of the Board of Directors and Executive Chairman of the Company. The Executive Committee appointed by the Board of Directors is comprised of Mr. Nestor Vasquez, Mr. Alan Slusher, Mr. Anwar Barrow and Dr. Carla Barnett.

AUDITORS

For the end of the fiscal year 2008/2009 Pannell Kerr Foster was Telemedia's external auditor. A resolution to re-appoint them or to appoint another competent accounting firm as auditors for 2009/2010 for Belize Telemedia Limited will be proposed at Belize Telemedia Limited's annual general meeting.

By order of the Board of Directors

A handwritten signature in black ink, appearing to read 'Lois Young', written in a cursive style.

Secretary of the Board

Belize Telemedia Limited