e-Kong Group Limited

(Incorporated in Bermuda with limited liability)
www.e-kong.com

(Stock Code: 524)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2004

RESULTS

The board of directors (the "Board") of e-Kong Group Limited (the "Company") herein announces the audited consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2004, together with comparative figures for 2003, as follows:

Condensed Consolidated Income Statement

		Year ended 31 December	
		2004	2003
	Notes	***HK$'000***	*HK$'000*
Turnover	2	**402,654**	402,543
Cost of sales		**(254,821)**	(235,128)
Gross profit		**147,833**	167,415
Interest income		**339**	107
Other income		**1,519**	3,142
Distribution costs		**(25,117)**	(23,149)
Business promotion and marketing expenses		**(6,029)**	(5,106)
Operating and administrative expenses		**(95,007)**	(112,689)
Other operating expenses		**(55,932)**	(50,851)
Loss from operations	7	**(32,394)**	(21,131)
Finance costs		**(38)**	(157)
Restructuring costs	3	**(100,544)**	—
Gain on disposal of discontinued operation		**—**	532
Loss from ordinary activities before taxation		**(132,976)**	(20,756)
Taxation credit	4	**1,369**	1,000
Net loss attributable to shareholders		**(131,607)**	(19,756)
		HK$	*HK$*
Loss per share	5		
Basic		**(0.28)**	(0.04)
Diluted		**N/A**	N/A
		HK$'000	*HK$'000*
EBITDA	6	**11,827**	23,802

Notes:

1. **Basis of preparation and accounting policies**

The condensed consolidated financial statements are prepared in accordance with the Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the Companies Ordinance and applicable disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted any of the new HKFRSs in its financial statements for the year ended 31 December 2004. The Group has assessed the impact of these new HKFRSs and does not think they would have any significant impact on the Group's results of operations and financial position.

2. **Turnover and segmental information**

The analysis of the Group's turnover and results by business and geographical segments during the year is as follows:

(a) by business segment:

	Year ended 31 December					
	2004			2003		
	Telecom-munications services	**Others**	**Consolidated**	Telecom-munications services	Others	Consolidated
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Turnover						
External sales	**402,155**	**499**	**402,654**	398,128	4,415	402,543
Results						
Loss from operations	**(19,039)**	**(271)**	**(19,310)**	(4,790)	(1,776)	(6,566)
Restructuring costs	**(100,544)**	**—**	**(100,544)**	—	—	—
	(119,583)	**(271)**	**(119,854)**	(4,790)	(1,776)	(6,566)
Finance costs			**(38)**			(157)
Gain on disposal of discontinued operation			**—**			532
Other operating income and expenses			**(13,084)**			(14,565)
Loss from ordinary activities before taxation			**(132,976)**			(20,756)
Taxation credit			**1,369**			1,000
Net loss attributable to shareholders			**(131,607)**			(19,756)

(b) by geographical segment:

	Year ended 31 December					
	2004			2003		
	North America	**Asia Pacific**	**Consolidated**	North America	Asia Pacific	Consolidated
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Turnover						
External sales	**273,678**	**128,976**	**402,654**	264,997	137,546	402,543
Results						
Profit/(Loss) from operations	**(25,782)**	**6,472**	**(19,310)**	(24,255)	17,689	(6,566)
Restructuring costs	**(100,544)**	**—**	**(100,544)**	—	—	—
	(126,326)	**6,472**	**(119,854)**	(24,255)	17,689	(6,566)
Finance costs			**(38)**			(157)
Gain on disposal of discontinued operation			**—**			532
Other operating income and expenses			**(13,084)**			(14,565)
Loss from ordinary activities before taxation			**(132,976)**			(20,756)
Taxation credit			**1,369**			1,000
Net loss attributable to shareholders			**(131,607)**			(19,756)

3. **Restructuring costs**

Due to significant technological and market development in the telecommunications industry, and the outsourcing of certain business processes in the Group's telecommunications operations in the United States, the Group has reviewed the carrying value of certain existing equipment together with related hardware and software to assess the recoverable value of those assets. As a result, restructuring costs of HK$100.5 million, including disposal and impairment losses of HK$95.8 million, have been recognised in the year ended 31 December 2004.

4. **Taxation credit**

Hong Kong Profits Tax and overseas taxation have not been provided for as the Group has no assessable profit for the year (2003: Nil).

The amount of taxation credited to the consolidated income statement represents:

	2004	2003
	HK$'000	*HK$'000*
Deferred taxation relating to the origination of temporary differences	**1,369**	1,000

5. **Loss per share**

The calculation of basic loss per share for the year ended 31 December 2004 was based upon the consolidated loss attributable to shareholders of HK$131,607,000 (2003: HK$19,756,000) and on the 470,894,200 (2003: 470,894,200) shares in issue during the year.

The fully diluted loss per share for the years ended 31 December 2004 and 2003 were not shown because the potential shares would decrease the loss per share and would be regarded as anti-dilutive.

6. **EBITDA**

EBITDA represents earnings before interest expenses, taxation, depreciation, amortisation, and impairment and disposal losses on property, plant and equipment.

7. **Loss from operations**

This was arrived at after charging/(crediting):

	Year ended 31 December	
	2004	2003
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**48,925**	44,403
Loss on disposal of investment securities	**232**	—
Gain on disposal of other investments	**—**	(13)

8. **Comparative figures**

Certain comparative figures have been reclassified to conform to the current year presentation.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2004 (2003: Nil).

BUSINESS REVIEW

During the year under review, the Group continued to develop its ZONE telecommunications businesses ("ZONE") in the United States, Hong Kong and Singapore, making significant progress in its strategy to expand its services in the rapidly growing area of Voice over Internet Protocol ("VoIP") communications. The Group has developed key strategic partnerships that will strengthen its operating efficiencies and accelerate penetration into existing and new markets. For example, ZONE US recently entered into an agreement with Belkin Corporation, the global leader in connectivity solutions, to create a business partnership in launching ZONE broadband phone services in the US.

In light of the rapid technological developments and recent changes in the market dynamics of the telecommunications industry, particularly in the US, and the Group resolving to outsource some business processes in its telecommunications operations in the US, certain existing equipment of the Group, including related hardware and software, were written off to reflect the changes in the manner in which ZONE US's business will continue to be conducted, and hence non-recurring restructuring costs of HK$100.5 million, including impairment and disposal losses of HK$95.8 million, were recognised during the year. The Group believes that such third-party business process outsourcing will help to reduce future capital expenditures and technological risks, accelerate introducing new products and services to the market and improve its overall operational efficiency.

ZONE US continued to expand its existing business beyond its current territory and set up a sales presence in the Southeast, including Florida and Atlanta. In addition to the pending launch of its VoIP products, ZONE US will capitalise on its technology outsourcing and business partnership strategy to launch other new services, including mobile, DSL broadband access and data-related services and continue to expand its range of telecommunications offerings for corporate customers.

Hong Kong remained a highly competitive telecommunications market despite signs of improvement in the general economy. International direct dialling ("IDD") rates continue to fall, a trend that is compounded by certain fixed-line operators using low price IDD services to attract local line customers. ZONE Hong Kong's turnover and profit margin were affected as a result of churn from the more price-sensitive segment of its customer base. However, ZONE Hong Kong has been able to maintain a loyal base of customers and has endeavoured to capture new customers who appreciate quality of service, ability to provide suitable value-added services and responsiveness to customer needs. During the year 2004, ZONE Hong Kong also launched its pilot VoIP services to target the SME market.

In 2004, ZONE Singapore recorded another year of increase in revenue and income growth. It continues to sign up some sizable corporate customers and has also been successful in securing a number of government and quasi-government contracts for the provision of IDD and others telecom services. The service platform upgrade scheduled in 2004 was completed, providing for more robust system redundancies and implementation of other value-added services.

Looking ahead, the Group will continue to expand its existing businesses in the US, Hong Kong and Singapore by utilising its internal resources and, whenever possible, leveraging on its current and future partnerships with other industry players in the regions. The Group's dedication to financial prudence and operational efficiency will continue to guide its operating companies in their ongoing objectives to increase revenue and improve operating results. As the Group expands its customer service and sales capabilities and strives to be a more sales focussed organisation, it will continue to explore new opportunities to satisfy the telecommunications needs of new and existing customers.

FINANCIAL REVIEW

Results

During the year under review, the Group recorded a modest increase in revenue growth. Total consolidated turnover increased to HK$402.7 million compared to HK$402.5 million for the prior year.

Turnover from ZONE US increased by 3.3% from HK$265.0 million in 2003 to HK$273.7 million in 2004 which accounted for 68.0% of the total Group turnover in 2004 compared to 65.8% for the previous year.

ZONE Asia, comprising the Group's telecommunications business in Hong Kong and Singapore, collectively achieved net profit for the year and recorded a 3.5% decrease in the turnover from HK$133.1 million for the previous year to HK$128.5 million for 2004.

The Group's gross profit decreased by 11.7% from HK$167.4 million in 2003 to HK$147.8 million. The gross profit for 2003 took into account an amount of HK$8.2 million which was the provision for rebate of Universal Services Contributions ("USC") from PCCW-HKT Telephone Limited. This amount was offset against the cost of sales of the Group in 2003.

The gross profit as a percentage of turnover for 2004 was 36.7% compared to 41.6% (or 39.6% after excluding the provision for rebate of USC) for 2003.

EBITDA for the Group was HK$11.8 million for 2004 compared to HK$23.8 million for 2003.

The operating loss for the year was HK$32.4 million compared to HK$21.1 million for the previous year.

The consolidated net loss attributable to shareholders was HK$131.6 million compared to HK$19.8 million for 2003. The significant increase in the net loss for 2004 was mainly attributable to non-recurring restructuring costs of HK$100.5 million recorded following the write-off of certain assets related to the Group's US operations as referred to in the section titled "Business Review" above.

Assets

As at 31 December 2004, the net assets of the Group amounted to HK$43.6 million (2003: HK$176.6 million). Such decrease was mainly caused by the said asset write-off.

Liquidity and Financing

The Group relied on its internal resources to fund operations during the year.

Cash and bank balances (excluding pledged deposits) were HK$44.4 million as at 31 December 2004 (2003: HK$30.9 million). The Group had pledged deposits amounting to HK$2.8 million as at 31 December 2004 (2003: HK$3.3 million) and had no bank borrowings during the year.

As at 31 December 2004, the Group's liabilities under equipment lease financing was HK$1.0 million (2003: HK$0.6 million).

The Group's gearing ratio, measured on the basis of total borrowings as a percentage of net assets was 2.3% (2003: 0.3%). The 2.0% increase was due mainly to a decrease in net asset value following the said write-off. Such write-off does not have any adverse effect on the cash or liquidity position of the Group.

Foreign Exchange Exposure

Since most of the Group's assets and liabilities, revenue and payments are denominated in Hong Kong dollars and United States dollars, the Group considers that there is no significant exposure to foreign exchange fluctuations so long as the Hong Kong-United States dollar exchange rate remains pegged. As the cash contribution from the Singapore operations continues to grow, the Group will closely monitor the Singapore-United States dollar exchange rate and, whenever appropriate, will take any necessary actions to reduce such exchange risks.

Contingent Liabilities and Commitments

As at 31 December 2004, there are no material contingent liabilities and commitments.

EMPLOYEE REMUNERATION POLICIES

As at 31 December 2004, the Group had 144 employees (2003: 186 employees) in Hong Kong and overseas. The Group's total staff costs amounted to HK$72.5 million (2003: HK$90.5 million). Pursuant to the share option schemes adopted by the Company, share options can 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 590,000 share options remained outstanding as at 31 December 2004.

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 to its employees other fringe benefits including provident fund and medical benefits.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not throughout the year ended 31 December 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules which was in force before 1 January 2005, save that, prior to 14 December 2004, non-executive directors of the Company were not appointed for a fixed term, but were subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's Bye-laws. Each of the non-executive directors of the Company was on 14 December 2004 appointed for a fixed term of three years.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standard set out in the Model Code throughout the year ended 31 December 2004.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management and the auditors of the Company the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the draft audited consolidated financial statements for the year ended 31 December 2004.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

PUBLICATION OF FURTHER INFORMATION

The 2004 annual report of the Company containing all information required by Appendix 16 to the Listing Rules in force prior to 31 March 2004, which remains applicable to results announcements and annual reports in respect of accounting periods commencing before 1 July 2004 under the transitional arrangements, will be published on both the websites of The Stock Exchange of Hong Kong Limited and of the Company in due course.

APPRECIATION

The Board would like to thank the customers, shareholders, business associates and professional advisers for their support and extend its appreciation to all employees for their hard work, dedication and commitment to the Group.

By Order of the Board
Richard John Siemens
Chairman

Hong Kong, 12 April 2005

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of e-Kong Group Limited (the "Company") will be held at 3805 Tower II, Lippo Centre, 89 Queensway, Hong Kong on Wednesday, 25 May 2005 at 10:00 a.m. for the following purposes:

As Ordinary Business

1. To receive and consider the audited financial statements for the year ended 31 December 2004 and the reports of directors and of the auditors thereon.

2. To re-elect retiring directors and to fix their remuneration.

3. To appoint auditors and to authorise the board of directors to fix their remuneration.

As Special Business

4. To consider and, if thought fit, pass the following resolutions, with or without amendments, as ordinary resolutions:

A. "**THAT**:

(a) subject to paragraph (c) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue or otherwise deal with additional shares of HK$0.01 each in the capital of the Company, or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares, and to make or grant offers, agreements or options which would or might require the exercise of such powers, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements or options which would or might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to issue of shares as a result of:

(i) a Rights Issue (as hereinafter defined); or

(ii) any scrip dividend or similar arrangement providing for the allotment of shares, in lieu of the whole or part of a dividend on shares of the Company, pursuant to the Bye-laws of the Company from time to time; or

(iii) the exercise of any option granted under any share option scheme or similar arrangement for the time being adopted and approved by the shareholders of the Company for the grant or issue to directors or employees or eligible participants of the Company and/or any of its subsidiaries of shares or rights to acquire shares in the Company; or

(iv) the exercise of subscription rights or conversion rights attaching to any warrants or any other securities convertible into shares which may be issued by the Company,

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly; and

(d) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and

(iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the directors of the Company to holders of shares of the Company or any class thereof on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares or any class thereof (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws, or the requirements of any recognised regulatory body or any stock exchange, in any territory applicable to the Company)."

B. "**THAT**:

(a) subject to paragraph (b) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), or on any other stock exchange on which the shares of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose ("Recognised Stock Exchange"), subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange and, if applicable, any other Recognised Stock Exchange, as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to paragraph (a) of this Resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly; and

(c) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and

(iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting."

C. "**THAT** conditional upon Resolutions 4A and 4B above being passed, the general mandate granted to directors of the Company for the time being in force to exercise the powers of the Company to allot, issue and deal with additional shares of the Company pursuant to Resolution 4A be and is hereby extended by the addition to the aggregate nominal amount of share capital of the Company which may be allotted, issued, and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with by the directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the shares repurchased by the Company under the authority granted pursuant to Resolution 4B, provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution."

5. To consider and, if thought fit, pass the following resolution, with or without amendments, as a special resolution:

"**THAT** the existing Bye-laws of the Company be and are hereby amended in the following manner:

(a) by inserting the words "voting by way of a poll is required by the listing rules of any Designated Stock Exchange or" after the words "on a show of hands unless" in the third sentence of Bye-law 66;

(b) by deleting the existing Bye-law 68 in its entirety and substituting therefor the following new Bye-law 68:

"68. If a poll is duly demanded, the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The Company shall only be required to disclose the voting figures on a poll if such disclosure is required by the listing rules of any Designated Stock Exchange."; and

(c) by deleting the existing Bye-law 87(1) in its entirety and substituting therefor the following new Bye-law 87(1):

"87(1). Notwithstanding any other provisions in the Bye-laws, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director shall be subject to retirement by rotation at least once every three years.";

and

THAT the directors of the Company be and are hereby authorised to do all such acts, deeds and things as they shall, in their absolute discretion deem fit, in order to effect and complete the foregoing."

By Order of the Board
Lau Wai Ming, Raymond
Company Secretary

Hong Kong, 12 April 2005

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice (or at any adjournment thereof) is entitled to appoint a proxy to attend and vote on his/her behalf at the meeting. A proxy need not be a member of the Company.

2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power of attorney or authority, must be deposited at the Company's Branch Share Registrar in Hong Kong, Secretaries Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting.

3. Completion and delivery of the form of proxy shall not preclude any member from attending and voting in person at the meeting convened, if the member so desires and in such event, the form of proxy shall be deemed to be revoked.

4. In case of joint registered holders of any shares, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such shares as if he/she was solely entitled thereto, but if more than one of such joint holders is present at the meeting personally or by proxy, that one of such holders so present whose name stands first in the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.

5. Pursuant to the Bye-laws of the Company, a resolution put to the vote of a general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of such meeting; or (ii) at least three members of the Company ("Shareholders") present in person or (being a corporation) by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or (iii) Shareholder(s) present in person or (being a corporation) by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or (iv) Shareholder(s) present in person or (being a corporation) by its duly authorised representative or by proxy and holding shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares.

6. An explanatory statement containing further details regarding Resolution 4B above will be sent to members and other persons who are entitled thereto together with the Company's 2004 Annual Report.

As at the date of this announcement, the Board of the Company comprises Executive Directors Mr. Richard John Siemens, Mr. Kuldeep Saran and Mr. Lim Shyang Guey; Non-executive Director Mr. William Bruce Hicks and Independent Non-executive Directors Mr. Shane Frederick Weir, Mr. Matthew Brian Rosenberg and Mr. John William Crawford.