e-Kong Group Limited

(Incorporated in Bermuda with limited liability)
www.e-kong.com
(Stock Code: 524)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2005

INTERIM RESULTS

The board of directors (the "Board") of e-Kong Group Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2005, together with comparative figures for the corresponding period in 2004. The results were unaudited but have been reviewed by the Company's Audit Committee and the Company's auditors.

Condensed Consolidated Income Statement

		Six months ended 30 June	
		2005	2004
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Turnover	2	**192,354**	201,456
Cost of sales		**(120,918)**	(126,754)
Gross profit		**71,436**	74,702
Other revenue	3	**244**	474
		71,680	75,176
Distribution costs		**(18,527)**	(20,235)
Business promotion and marketing expenses		**(1,297)**	(3,434)
Operating and administrative expenses		**(38,273)**	(43,707)
Depreciation and amortisation		**(2,391)**	(25,508)
Profit/(Loss) from operations		**11,192**	(17,708)
Finance costs		**(18)**	(22)
Profit/(Loss) before taxation		**11,174**	(17,730)
Taxation	4	**—**	—
Profit/(Loss) for the period		**11,174**	(17,730)
Attributable to:			
Equity holders of the Company		**11,174**	(17,700)
Minority interests		**—**	(30)
		11,174	(17,730)
		HK$	*HK$*
Earnings/(Loss) per share	5		
Basic		**0.02**	(0.04)
Diluted		**N/A**	N/A
		HK$'000	*HK$'000*
EBITDA	6	**13,583**	7,800

Condensed Consolidated Balance Sheet

	As at	As at
	30 June 2005	31 December 2004
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	**7,771**	7,916
Available-for-sale investments	**1,894**	1,894
Deferred tax assets	**2,305**	2,369
	11,970	12,179
Current assets		
Trade and other receivables	**57,457**	45,569
Pledged deposits	**2,433**	2,817
Bank balances and cash	**43,159**	44,377
	103,049	92,763
Current liabilities		
Trade and other payables	**58,875**	60,326
Current portion of obligations under finance leases	**188**	184
	59,063	60,510
Net current assets	**43,986**	32,253
Total assets less current liabilities	**55,956**	44,432
Long-term liabilities		
Obligations under finance leases	**714**	809
NET ASSETS	**55,242**	43,623
CAPITAL AND RESERVES		
Issued capital	**4,709**	4,709
Reserves	**50,533**	38,914
TOTAL EQUITY	**55,242**	43,623

Notes:

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

The condensed consolidated financial statements are unaudited and have been prepared in accordance with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and applicable disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). They have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter, collectively, referred to as "new HKFRSs") issued by the HKICPA that became effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in changes in presentation of the income statement, the balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the financial statements to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below.

Prior to 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities were classified as "investment securities" or "other investments" as appropriate. Investment securities are carried at cost less impairment losses (if any) while other investments are measured at fair value, with realised/unrealised gains or losses included in the profit and loss account. From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair values through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair values through profit or loss" and "available-for-sale financial assets" are carried at fair values, with changes in fair values being recognised in profit or loss and equity. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

As a result of the adoption of HKAS 39, the Group has reclassified its "investment securities" as "available-for-sale financial assets" and the recognised impairment losses in previous periods are not reversed through profit or loss. Accordingly, no adjustments to the previous carrying amounts of assets at 1 January 2005 have been required.

Share-based Payment

Under HKFRS 2 "Share-based Payment", which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to given numbers of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the relevant vesting periods to the profit and loss account. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of those share options until they were exercised. From 1 January 2005 onwards, the Group has applied HKFRS 2 to share options granted on or after 7 November 2002 and had not yet been vested on 1 January 2005. In relation to share options granted before 7 November 2002, the Group has not applied HKFRS 2 in accordance with the relevant transitional provisions. As at 30 June 2005, all share options of the Company had been granted before 7 November 2002 and, therefore, are not subject to the requirements of HKFRS 2.

2. **Turnover and segmental information**

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

(a) *by business segments:*

	Six months ended 30 June					
	2005			2004		
	Telecom-munications services (Unaudited) *HK$'000*	**Others (Unaudited) *HK$'000***	**Consolidated (Unaudited) *HK$'000***	Telecom-munications services (Unaudited) *HK$'000*	Others (Unaudited) *HK$'000*	Consolidated (Unaudited) *HK$'000*
Turnover						
External sales	**192,083**	**271**	**192,354**	201,240	216	201,456
Results						
Profit/(Loss) from operations	**19,587**	**26**	**19,613**	(10,161)	(138)	(10,299)
Finance costs			**(18)**			(22)
Other operating income and expenses			**(8,421)**			(7,409)
Profit/(Loss) for the period			**11,174**			(17,730)

(b) *by geographical segments:*

	Six months ended 30 June					
	2005			2004		
	North America (Unaudited) *HK$'000*	**Asia Pacific (Unaudited) *HK$'000***	**Consolidated (Unaudited) *HK$'000***	North America (Unaudited) *HK$'000*	Asia Pacific (Unaudited) *HK$'000*	Consolidated (Unaudited) *HK$'000*
Turnover						
External sales	**138,157**	**54,197**	**192,354**	135,183	66,273	201,456
Results						
Profit/(Loss) from operations	**9,963**	**9,650**	**19,613**	(13,903)	3,604	(10,299)
Finance costs			**(18)**			(22)
Other operating income and expenses			**(8,421)**			(7,409)
Profit/(Loss) for the period			**11,174**			(17,730)

3. **Other revenue**

	Six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest income	**209**	134
Others	**35**	340
	244	474

4. **Taxation**

Hong Kong Profits Tax and overseas taxation have not been provided as the Group's estimated assessable profit for the period is wholly absorbed by available tax losses brought forward from previous years (30 June 2004: Nil).

5. **Earnings/(Loss) per share**

The calculation of basic earnings per share for the six months ended 30 June 2005 was based on the consolidated profit attributable to equity holders of the Company of HK$11,174,000 (30 June 2004: loss of HK$17,700,000) and on the 470,894,200 (30 June 2004: 470,894,200) shares in issue during the period.

The diluted earnings/(loss) per share for the six months ended 30 June 2005 and 2004 have not been presented as the exercise prices of the share options were higher than the average market price.

6. **EBITDA**

EBITDA represents earnings before interest expenses, taxation, depreciation and amortisation.

7. **Comparative figures**

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

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2005 (30 June 2004: Nil).

BUSINESS REVIEW AND OUTLOOK

During the period under review, the Group achieved an important milestone in recording a net profit of HK$11.2 million. This milestone result was reached despite the competitive market environment and the challenging dynamics in the telecommunications industry. Turnover for the period showed a modest decline to HK$192.4 million compared to HK$201.5 million for the previous period, in line with the Group's current objective to stay focused on increasing margins, improving operational efficiencies and attaining profitability. **Looking ahead**, the Group foresees increases in revenue growth from a number of new initiatives, including contributions from its Voice-over Internet Protocol ("VoIP") related business.

Turnover from ZONE operations in the United States ("ZONE US") increased by 2.2%, from HK$135.2 million for the prior period to HK$138.2 million. ZONE US accounted for 71.8% of the total Group turnover for the period, compared to 67.1% for the corresponding period in 2004, and its existing business continues to grow in size and geographic scope. ZONE US has also launched components of its VoIP offerings. ZONE US has developed defined VoIP product strategies for its consumer, commercial and wholesale market space. ZONE US's consumer VoIP product "ZONE Broadband Phone" is in its final stages of user acceptance testing, and is expected to be available for commercial deployment in the fourth quarter of 2005. At the same time, the integration of the ZONE US business set-up with the systems of its business process outsourcing partner is progressing smoothly. Coupled with the revamp of its website to become more feature-rich, ZONE US will soon be in a position to offer additional services in an efficient and cost-savingly manner.

Turnover from ZONE Hong Kong and ZONE Singapore (collectively, "ZONE Asia") for this period was HK$53.9 million compared to HK$66.0 million for the prior period. In Hong Kong, while the international direct dialling (IDD) business remains as the main revenue driver, the VoIP and other value-added service initiatives are beginning to generate increasing margins and revenue contributions to operations. In Singapore, ZONE continues to focus on growing its core business through its direct sales as well as working with strategic channel partners. ZONE is reviewing the licensing and regulatory framework for IP telephony services recently released by the Infocomm Development Authority of Singapore (IDA) and is also assessing the business opportunities for providing regional VoIP services in the South-east Asian countries.

Looking ahead, the Group expects its operations in the US, Hong Kong and Singapore to remain profitable for the coming period. ZONE US anticipates its feature-rich and competitively priced VoIP broadband phone services, when commercially launched, will be well-received by the market. In Asia, a number of new opportunities are emerging in the VoIP arena. For example, various countries including Singapore have made determinations on the regulatory framework for VoIP services and also there has been significant interest shown by investors to participate in the expected growth of this service sector. As the Group stays focused on improving operational efficiencies and maintaining profitability, it will also actively seek new opportunities to increase its revenue, including progressively penetrating into the VoIP and related markets in the US and in Asia.

EMPLOYEE REMUNERATION POLICY

As at 30 June 2005, the Group had 134 employees (31 December 2004: 144 employees) in Hong Kong and overseas.

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.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. No director of the Company is aware of any information which would reasonably indicate that the Company is not, or was not, at any time during the six months ended 30 June 2005, acting in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

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 the undertaking of a review of the draft unaudited consolidated financial results for the six months ended 30 June 2005.

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

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

APPRECIATION

The Board would like to thank the customers, shareholders, business associates and professional advisers for their support and extends 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, 8 September 2005

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.