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# **e-KONG**

## **e-Kong Group Limited**

*(Incorporated in Bermuda with limited liability)*

[www.e-kong.com](http://www.e-kong.com)

**(Stock Code: 524)**

### **MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL OF ZONE GLOBAL LIMITED AND RESUMPTION OF TRADING**

**Financial adviser to e-Kong Group Limited**



#### **THE DISPOSAL**

On 4 November 2014 (after trading hours), the Seller (a wholly-owned subsidiary of the Company) and the Purchaser entered into the Disposal Agreement pursuant to which the Seller has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Share at a cash consideration of HK\$130,000,000.

The Sale Share represents the entire issued share capital of the Target. The Target Group owns 50% equity interest in ANZ which is principally engaged in the provision of voice and data telecommunication services in the U.S..

#### **LISTING RULES IMPLICATIONS**

Since one or more of the applicable percentage ratios in respect of the Disposal under Rule 14.07 of the Listing Rules are more than 25% but less than 75%, the Disposal constitutes a major transaction for the Company under the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements.

As at the date of this announcement, Mr. Siemens, an executive Director, Chairman of the Board and a substantial Shareholder, is interested in the entire issued share capital of the Purchaser. The Purchaser is an associate of Mr. Siemens and thus a connected person of the Company under the Listing Rules. The Disposal therefore also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, and is subject to approval from the Independent Shareholders at the SGM by way of poll. Mr. Siemens, the Purchaser and their respective associates shall abstain from voting in respect of the resolution to approve the Disposal Agreement and the transactions contemplated thereunder at the SGM.

## **GENERAL**

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. John William Crawford J.P., Mr. Gerald Clive Dobby and Mr. Thaddeus Thomas Beczak, has been established by the Company to provide a recommendation to the Independent Shareholders in respect of the Disposal Agreement. Altus Capital Limited has been appointed as the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

The SGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Disposal Agreement and the transactions contemplated thereunder. A circular containing, among others, further details of the Disposal Agreement, the financial information of the Group, the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, the notice of SGM and other information as required under the Listing Rules, is expected to be despatched to the Shareholders on or before 1 December 2014 so as to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

## **SUSPENSION AND RESUMPTION OF TRADING IN THE SHARES**

Trading in the Shares was suspended at the request of the Company with effect from 9:00 a.m. on 5 November 2014 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares from 9:00 a.m. on 7 November 2014.

Reference is made to the Company's announcement dated 17 October 2014 in relation to commercial negotiations on a possible disposal of the Group's entire interests in ANZ to Mr. Siemens on a non-exclusive basis. The Board is pleased to announce that on 4 November 2014 (after trading hours), the Seller (a wholly-owned subsidiary of the Company) and the Purchaser entered into the Disposal Agreement pursuant to which the Seller has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Share at a cash consideration of HK\$130,000,000.

## **THE DISPOSAL AGREEMENT**

The principal terms of the Disposal Agreement are as follows:

### **Date**

4 November 2014

### **Parties**

- (i) Distacom International Limited (as purchaser); and
- (ii) Cyberman Limited (as seller).

As at the date of this announcement, Mr. Siemens, an executive Director, Chairman of the Board and a substantial Shareholder who owns approximately a 24.6% shareholding interest in the Company, is interested in the entire issued share capital of the Purchaser. The Purchaser is an associate of Mr. Siemens and thus a connected person of the Company under the Listing Rules. The Purchaser is principally engaged in investment holding.

### **Asset to be disposed of**

Pursuant to the Disposal Agreement, the Purchaser has conditionally agreed to purchase from the Seller the Sale Share (representing the entire issued share capital of the Target), free from all liens, charges, encumbrances and third party rights and together with all rights attaching thereto including the right to all dividends paid, declared or made in respect thereof after the Completion Date.

### **Consideration**

The consideration for the Disposal is HK\$130,000,000, which shall be payable by the Purchaser to the Seller in the following manner:

- (i) a deposit in the sum of HK\$26,000,000 was paid upon the signing of the Disposal Agreement; and

- (ii) the balance of the consideration in the sum of HK\$104,000,000 shall be payable upon Completion.

The Purchaser has acknowledged that the unsecured loan made to the Target by Distacom Enterprises Limited, a company controlled by Mr. Siemens, in the principal amount of US\$5.0 million (equivalent to approximately HK\$38.8 million) which was drawn down on 17 July 2014, remains outstanding. The liability to repay the loan (principal and interest) shall remain with the Target on Completion without recourse to the Company and its subsidiaries (excluding the Target Group). The loan was made available to the Target to finance a capital contribution to ANZ which was made in July 2014.

The consideration for the Disposal was determined after arm's length negotiations between the Seller and the Purchaser with reference to, among other things, the carrying value of the Group's 50% interests in ANZ of approximately US\$17.4 million (equivalent to approximately HK\$134.7 million) as at 31 August 2014 and the unsecured loan of US\$5.0 million (equivalent to approximately HK\$38.8 million) of the Target described above.

### **Conditions precedent**

Completion is conditional upon the following conditions being satisfied, or waived by the Purchaser, on or before 28 February 2015:

- (i) the Shareholders (other than Mr. Siemens and his associates) having approved the sale of the Sale Share to the Purchaser in accordance with the Listing Rules;
- (ii) the warranties given by the Seller in the Disposal Agreement remaining true and accurate in all material respects and not misleading in any material respect immediately prior to the Completion by reference to the facts and circumstances subsisting immediately prior to Completion;
- (iii) all necessary approvals in respect of the Disposal Agreement and the transactions contemplated thereunder, including all relevant material consents and approvals from third parties which are necessary in conjunction with the proposed change in shareholding of the Target, having been obtained;
- (iv) the Target Group having no outstanding intercompany loans, intercompany related balances or other debts due to the Company or any related party of the Company; and

- (v) the bank loan to ZONE USA made by Citibank, N.A. in the principal amount of US\$10.0 million (equivalent to approximately HK\$77.5 million), which bank loan is collateralised by a bank letter of credit supported by the Company, being discharged.

The Purchaser may at any time waive in writing any of the above conditions (except condition (i) which is incapable of being waived).

## **Completion**

Subject to all conditions set out in the Disposal Agreement (as described in the section headed "Conditions precedent" above) having been satisfied (or waived), Completion shall take place on the Completion Date.

Upon Completion, the Company will cease to have any interests in the Target Group.

## **INFORMATION ON THE TARGET GROUP**

The Target is a company incorporated in the BVI with limited liability and is an investment holding company which, through its direct wholly-owned subsidiary, ZONE USA, holds 50% of the voting units in ANZ. Both the Target and ZONE USA have not conducted any business operations other than investment holding.

The following table sets out the unaudited consolidated financial information of the Target prepared in accordance with Hong Kong GAAP for the two years ended 31 December 2013:

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2012</b>	<b>2013</b>
	(Unaudited)	(Unaudited)
	HK\$ '000	HK\$ '000
Turnover	—	—
Net profit / (loss) before taxation	13,628	(9,999)
Net profit / (loss) after taxation	1,122	(11,171)

As at 30 June 2014, the unaudited consolidated net liabilities of the Target were approximately HK\$251.1 million.

ANZ is a limited liability company incorporated under the laws of the State of Delaware in the U.S., and whose voting units are owned as to 50% by ZONE USA and 50% by ANPI Holding. ANZ is an investment holding company and its operating subsidiaries are principally engaged in the provision of voice and data telecommunication services, and are in the course of investing and executing its plan to roll-out its Cloud Business in the U.S..

ZONE USA controls 50% of the voting power of ANZ in general meetings. Since the major financing and operational decisions of ANZ should be unanimously approved by the Group and its joint venture partner, ANZ and its subsidiaries are accounted for as joint ventures of the Group under Hong Kong GAAP.

As disclosed in the annual report of the Company for the year ended 31 December 2013, subsequent to the application of HKFRS 11 "Joint Arrangements" which resulted in the change in the Group's accounting policy that came into effect on 1 January 2013, the Group's interests in ANZ are accounted for using the equity method. As such, only the Group's share of each of the ANZ net assets and net results based on the equity method were recognised in the Group's financial statements for the year ended 31 December 2013.

Set out below is the selected financial information of ANZ as extracted from the annual report of the Company for the year ended 31 December 2013 and the interim report of the Company for the six months ended 30 June 2014, in each case prepared in accordance with Hong Kong GAAP:

	<b>As at</b>		<b>As at</b>
	<b>31 December</b>		<b>30 June</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	(Restated)		
	(Audited)	(Audited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interests in joint ventures	140,401	131,655	103,064

	For the year ended 31 December		For the six months ended 30 June
	2012	2013	2014
	(Restated)		
	(Audited)	(Audited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000
Share of results of joint ventures:			
– Profit / (Loss) for the year / period	18,147	(8,180)	(28,661)
Distributions received from joint venture	14,994	567	—

As at 31 August 2014, the carrying value of the Group's 50% interests in ANZ was approximately US\$17.4 million (equivalent to approximately HK\$134.7 million).

## REASONS FOR AND BENEFITS OF THE DISPOSAL

The Group is principally engaged in the provision of telecommunication services and insurance-related product distribution services. The Group's telecommunications business currently has operations in Singapore and Hong Kong as well as the U.S. through ANZ.

As disclosed in the announcement of the Company dated 17 October 2014, the Board has held meetings in respect of the strategic direction of the Group and assessed, among others, the potential long-term value that the Group's holding of ANZ could bring to the Group and the Shareholders against the possible additional capital requirements for ANZ until such time its value can be realised as well as the need for the Group to be capitalised to pursue other business opportunities. In light of ANZ's loss making position and the Cloud Business being still in its infancy stage, the Group has encountered difficulties in raising suitable equity or debt funding to finance ANZ's operations. The Target's capital contribution of US\$5.0 million (equivalent to approximately HK\$38.8 million) to ANZ in July 2014 was wholly financed by the unsecured loan provided by Distacom Enterprises Limited, a company controlled by Mr. Siemens. Under such circumstances, the Company began exploring the possibility of disposing of the Group's interests in ANZ, but did not receive any offer. The Company was thereafter approached by Mr. Siemens, the Chairman of the Board and a substantial Shareholder, in relation to a possible acquisition of the Group's entire interests in ANZ.

The Disposal is consistent with the aforesaid business strategy and enables the Group to generate financial resources and direct its focus to concentrate on the growth of its existing businesses and operations and capturing new business, investment and other opportunities (primarily in the Asia region) that the Group may encounter.

The net cash proceeds from the Disposal, after deducting expenses attributable to the Disposal of approximately HK\$1.5 million, are estimated to be approximately HK\$128.5 million. These are expected to be applied towards the growth and expansion of the Group's existing operations of providing telecommunications services in Asia and mass-market distribution of insurance-related products, capturing new business, investment and other opportunities (primarily in the Asia region) that the Group may encounter, and meeting general working capital requirements.

After Completion, the Group will continue to operate its telecommunications businesses in Singapore and Hong Kong and mass-market distribution of insurance-related products in Hong Kong, Canada and other markets to be developed. Turnover generated from those businesses was approximately HK\$77.3 million for the year ended 31 December 2013.

In view of the above, the executive Directors (excluding Mr. Siemens who has abstained from voting on the relevant Board resolution due to his interest in the Disposal Agreement) consider that the terms of the Disposal Agreement, including the consideration for the Sale Share, are fair and reasonable and the Disposal is in the interests of the Company and the Shareholders as a whole. The independent non-executive Directors will express their views on the transactions contemplated under the Disposal Agreement in the circular to be despatched to the Shareholders after taking into account the advice of the independent financial adviser.

## **FINANCIAL EFFECTS OF THE DISPOSAL**

Upon Completion, the Company will cease to have any interests in each member of the Target Group. ANZ and its subsidiaries have been regarded as joint ventures of the Group, whose net assets and net results have been equity accounted for in the Company's consolidated financial statements. This equity accounting will cease upon Completion. Therefore, the financial results and the assets and liabilities of the Target Group will no longer be accounted for in the consolidated financial statements of the Company.



The Company expects that the Group will realise an estimated gain (after taking into account the expenses directly related to the Disposal) of approximately HK\$30.9 million on the Disposal. The estimated gain on the Disposal is calculated with reference to the consideration of the Disposal and the unaudited consolidated net asset value of the Target Group as at 31 August 2014 and the aggregate amount of loans and intercompany balances due from the Target Group and referred to in items (iv) and (v) in the section headed "Conditions precedent" above.

The actual gain or loss arising from the Disposal may be different from the above and shall be subject to audit and determined based on the amount of the consolidated net assets / liabilities (as the case may be) of the Target Group as at the date of Completion and the amount of expenses incidental to the Disposal.

### **IMPLICATIONS UNDER THE LISTING RULES**

Since one or more of the applicable percentage ratios in respect of the Disposal under Rule 14.07 of the Listing Rules are more than 25% but less than 75%, the Disposal constitutes a major transaction for the Company under the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements.

As at the date of this announcement, Mr. Siemens, an executive Director, Chairman of the Board and a substantial Shareholder, is interested in the entire issued share capital of the Purchaser. The Purchaser is an associate of Mr. Siemens and thus a connected person of the Company under the Listing Rules. Accordingly, the Disposal also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, and is subject to approval from the Independent Shareholders at the SGM by way of poll. Mr. Siemens, the Purchaser and their respective associates shall abstain from voting in respect of the resolution to approve the Disposal Agreement and the transactions contemplated thereunder at the SGM.

### **GENERAL**

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. John William Crawford J.P., Mr. Gerald Clive Dobby and Mr. Thaddeus Thomas Beczak, has been established by the Company to provide a recommendation to the Independent Shareholders in respect of the Disposal Agreement. Altus Capital Limited has been appointed as the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

The SGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Disposal Agreement and the transactions contemplated thereunder. A circular containing, among others, further details of the Disposal Agreement, the financial information of the Group, the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, the notice of SGM and other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before 1 December 2014 so as to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

## **SUSPENSION AND RESUMPTION OF TRADING IN THE SHARES**

Trading in the Shares was suspended at the request of the Company with effect from 9:00 a.m. on 5 November 2014 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares from 9:00 a.m. on 7 November 2014.

## **DEFINITIONS**

In this announcement, unless the context requires otherwise, the following expressions have the following meanings:

"ANPI Holding"	ANPI Holding, Inc., an Illinois corporation
"ANZ"	ANZ Communications LLC, a limited liability company incorporated under the laws of the State of Delaware in the U.S., which is beneficially owned as to 50% by ZONE USA and 50% by ANPI Holding
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"Cloud Business"	in relation to ANZ, its new business of provision of Unified Communication hosted solutions and cloud applications
"Company"	e-Kong Group Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange

“Completion”	completion of the Disposal in accordance with the terms and conditions of the Disposal Agreement
“Completion Date”	the date on which Completion takes place
“connected person(s)”	has the meaning ascribed thereto under Rule 1.01 and as extended under Rule 14A.11 of the Listing Rules
“Director(s)”	the director(s) of the Company
“Disposal”	the proposed disposal of the Sale Share by the Seller to the Purchaser pursuant to the Disposal Agreement
“Disposal Agreement”	the conditional sale and purchase agreement dated 4 November 2014 entered into between the Seller and the Purchaser in relation to the Disposal
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong GAAP”	Generally Accepted Accounting Principles in Hong Kong
“Independent Board Committee”	the independent committee of the Board comprising all the independent non-executive Directors, namely Mr. John William Crawford J.P., Mr. Gerald Clive Dobby and Mr. Thaddeus Thomas Beczak, established to provide a recommendation to the Independent Shareholders on the terms of the Disposal Agreement
“Independent Shareholders”	Shareholders, other than Mr. Siemens, the Purchaser and their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

"Mr. Siemens"	Mr. Richard John Siemens, an executive Director, Chairman and a substantial Shareholder
"percentage ratios"	has the meaning ascribed thereto under Chapter 14 of the Listing Rules
"Purchaser"	Distacom International Limited, a company incorporated in the BVI with limited liability and wholly owned by Mr. Siemens
"Sale Share"	one issued share of US\$1.00 of the Target, representing the entire issued share capital of the Target
"Seller"	Cyberman Limited, a company incorporated in the BVI with limited liability and an indirect wholly-owned subsidiary of the Company
"SGM"	the special general meeting to be convened and held by the Company for the Independent Shareholders to consider and, if thought fit, approve the Disposal Agreement and the transactions contemplated thereunder
"Share(s)"	share(s) of HK\$0.01 each in the issued and fully paid up share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target"	ZONE Global Limited, a company incorporated in the BVI with limited liability, which is an indirect wholly-owned subsidiary of the Company and the immediate holding company of ZONE USA
"Target Group"	the Target and ZONE USA
"U.S."	United States of America
"US\$"	United States dollar(s), the lawful currency of the U.S.

"ZONE USA"

Zone USA, Inc., a Delaware corporation, which is an indirect wholly-owned subsidiary of the Company

"%"

per cent

By Order of the Board  
**Lau Wai Ming Raymond**  
*Executive Director and  
Company Secretary*

Hong Kong, 6 November 2014

*As at the date of this announcement, the Board of the Company comprises executive Directors, Richard John Siemens, Lim Shyang Guey, Chi Chi Hung Kenneth and Lau Wai Ming Raymond; and independent non-executive Directors, John William Crawford J.P., Gerald Clive Dobby and Thaddeus Thomas Beczak.*

*Unless otherwise specified in this announcement, amounts denominated in US\$ have been converted, for illustrative purpose only, into Hong Kong dollars at a rate of US\$1.00 = HK\$7.75. Such conversion should not be construed as a representation that the currency could actually be converted to HK\$ at that rate or at all.*