e-Kong Group Limited

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

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2003

INTERIM RESULTS

The board of directors (the "Board") of e-Kong Group Limited (the "Company") is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2003, together with comparative figures for the corresponding period in 2002. The results are unaudited but have been reviewed by the Company's Audit Committee and the Company's auditors.

Condensed Consolidated Income Statement

	Note	Six months ended 30 June 2003 (Unaudited) *HK$'000*	2002 (Unaudited) *HK$'000*
Turnover	2	**201,173**	140,592
Cost of sales		**(116,306)**	(102,909)
Gross profit		**84,867**	37,683
Other revenue	3	**630**	1,261
		85,497	38,944
Distribution costs		**(20,048)**	(12,736)
Business promotion and marketing expenses		**(3,025)**	(3,767)
Operating and administrative expenses		**(48,106)**	(78,756)
Depreciation and amortisation		**(22,538)**	(22,686)
Loss from operations	5	**(8,220)**	(79,001)
Finance costs		**(111)**	(770)
Provision for diminution in value of investment securities		**–**	(26,882)
Unrealised holding loss on other investments		**–**	(8,675)
Loss from ordinary activities before taxation		**(8,331)**	(115,328)
Taxation	6	**–**	–
Net loss attributable to shareholders		**(8,331)**	(115,328)
		HK$	*HK$*
Loss per share	7		
Basic		**(1.77) cents**	(47.2) cents
Diluted		**N/A**	N/A
		HK$'000	*HK$'000*
EBITDA	8	**14,318**	(56,315)

Notes:

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

   The condensed consolidated financial statements are unaudited and have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the applicable disclosure requirements under Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. **Turnover and segmental information**

   The analysis of the Group's turnover and results by principal business activities and geographical area of operations during the period are as follows:

   (a) by business segments:

	2003 Telecom-munication services (Unaudited) *HK$'000*	2003 Others (Unaudited) *HK$'000*	2003 Consolidated (Unaudited) *HK$'000*	2002 Telecom-munication services (Unaudited) *HK$'000*	2002 Others (Unaudited) *HK$'000*	2002 Consolidated (Unaudited) *HK$'000*
Turnover						
External sales	**198,006**	**3,167**	**201,173**	131,187	9,405	140,592
Result						
Loss from operations	**(1,112)**	**(1,004)**	**(2,116)**	(62,708)	(8,477)	(71,185)
Finance costs			**(111)**			(770)
Other operating income and expenses			**(6,104)**			(7,816)
Provision for diminution in value of investment securities			**–**			(26,882)
Unrealised holding loss on other investments			**–**			(8,675)
Net loss attributable to shareholders			**(8,331)**			(115,328)

   (b) by geographical segments:

	2003 Asia Pacific (Unaudited) *HK$'000*	2003 North America (Unaudited) *HK$'000*	2003 Consolidated (Unaudited) *HK$'000*	2002 Asia Pacific (Unaudited) *HK$'000*	2002 North America (Unaudited) *HK$'000*	2002 Consolidated (Unaudited) *HK$'000*
Turnover						
External sales	**71,457**	**129,716**	**201,173**	64,249	76,343	140,592
Result						
Profit/(Loss) from operations	**1,641**	**(3,757)**	**(2,116)**	(14,264)	(56,921)	(71,185)
Finance costs			**(111)**			(770)
Other operating income and expenses			**(6,104)**			(7,816)
Provision for diminution in value of investment securities			**–**			(26,882)
Unrealised holding loss on other investments			**–**			(8,675)
Net loss attributable to shareholders			**(8,331)**			(115,328)

3. **Other revenue**

	Six months ended 30 June 2003 (Unaudited) *HK$'000*	2002 (Unaudited) *HK$'000*
Interest income	**34**	248
Gain on disposal of discontinued operations	**382**	–
Others	**214**	1,013
	630	1,261

4. **Discontinued operations**

   In January 2003, the Group entered into a sale and purchase agreement with an independent third party to dispose of two of the Company's wholly-owned subsidiaries at a consideration of HK$1.5 million. Upon disposal of the two subsidiaries, which were engaged in the business of provision of event management services, the corporate management services business of the Group has been discontinued since January 2003.

	Six months ended 30 June 2003 (Unaudited) *HK$'000*	2002 (Unaudited) *HK$'000*
Net assets disposed of:		
Total assets	**2,849**	–
Total liabilities	**(1,896)**	–
	953	–
Cost incurred	**165**	–
Gain on disposal of subsidiaries	**382**	–
Cash consideration	**1,500**	–

   Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	Six months ended 30 June 2003 (Unaudited) *HK$'000*	2002 (Unaudited) *HK$'000*
Cash consideration	**1,500**	–
Cash and cash equivalents disposed of	**(210)**	–
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**1,290**	–

5. **Loss from operations**

   This was arrived at after crediting:

	Six months ended 30 June 2003 (Unaudited) *HK$'000*	2002 (Unaudited) *HK$'000*
Gain on disposal of other investments	**12**	65

6. **Taxation**

   Hong Kong Profits Tax and overseas taxation have not been provided as the Group has no assessable profit for the period (30 June 2002: Nil).

7. **Loss per share**

   The calculation of basic loss per share for the six months ended 30 June 2003 was based upon the consolidated loss attributable to shareholders of HK$8,331,000 (30 June 2002: HK$115,328,000) and on the weighted average number of 470,894,200 (30 June 2002: 244,361,624) ordinary shares in issue during the period.

   The fully diluted loss per share for the six months ended 30 June 2002 and 2003 are not shown because the potential ordinary shares would decrease the loss per share and would be regarded as anti-dilutive.

   The comparative amount of the loss per share has been adjusted for the effect of the share consolidation and the rights issue of 235,447,100 shares of the Company during the year of 2002.

8. **EBITDA**

   EBITDA represents earnings before interest expenses, taxation, depreciation, amortisation, provision for diminution in value of investment securities and unrealised holding loss on other investments.

9. **Comparative figures**

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

INTERIM DIVIDEND

The Board has not recommended payment of any interim dividend for the six months ended 30 June 2003 (30 June 2002: Nil).

BUSINESS REVIEW AND OUTLOOK

During the period under review, the Group recorded a healthy business growth and strong operating performance despite the economic uncertainties that dominated the first half of 2003. Total turnover was HK$201.2 million, a 43.1% increase compared to HK$140.6 million for the same period in 2002. The Group also achieved an important milestone of attaining positive EBITDA (earnings before interest, taxation, depreciation and amortisation) of HK$14.3 million for the six months ended 30 June 2003. Loss for the period decreased substantially to HK$8.3 million compared to HK$115.3 million for the previous corresponding period.

The ZONE telecommunications business of the Group continues to perform well with increased turnover and improvement in the operating results. Revenue for this period from the ZONE operations in the United States ("ZONE US") increased by 69.9%, from HK$76.3 million for the prior period to HK$129.7 million. This is particularly good performance given the competitive business environment and continuing economic uncertainty in the US. ZONE US achieved a steady revenue growth and a positive EBITDA for the first half of 2003 mainly due to increase in its sales efforts, continuous improvement in its operating efficiencies and better gross margin.

ZONE Hong Kong and ZONE Singapore (collectively "ZONE Asia") achieved net profit during this period even though both countries were severely affected by the SARS outbreak in the second quarter of 2003. Profitability was achieved mainly through increasing its turnover while maximising its operating margin. The Group's continuing efforts in technological developments and business process improvements of the ZONE model are providing significant operating leverage for its ZONE telecommunications business, enabling it to remain competitive in the current difficult market conditions.

As the operating units focused their efforts on achieving their business and operating targets during this period, the Group has also embarked on certain strategic initiatives for the longer term benefit of the Group and its shareholders. Among these initiatives, the Group have progressively transformed the operating units into self-sustaining entities which can operate independently and are expected to be able to self-finance their respective projected growth.

In a challenging environment, the Group has delivered on its operating and financial targets for the first half of 2003. Looking ahead, for the next period, the Group is expected to continue to improve on its operating performance and financial position and to deliver on its goal to achieve positive EBITDA for the year of 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial results

The Group's turnover for the period under review increased by 43.1% to HK$201.2 million compared to HK$140.6 million for the corresponding period in 2002.

The gross profit increased by 125.2% from HK$37.7 million to HK$84.9 million. The gross profit as a percentage of total turnover increased from 26.8% to 42.2%.

The Group's EBITDA improved by HK$70.6 million to positive HK$14.3 million compared to negative HK$56.3 million for the prior period. This result was attributable mainly to the increase in turnover from existing and new services, higher gross margins and lower operating costs.

The operating loss for the period reduced to HK$8.2 million compared to HK$79.0 million for the previous corresponding period.

Consolidated net loss attributable to shareholders declined substantially to HK$8.3 million from HK$115.3 million for the previous corresponding period.

Financial resources, liquidity and gearing ratio

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

Bank balances and cash (excluding pledged deposits) were HK$29.9 million as at 30 June 2003 (31 December 2002: HK$31.1 million). The Group had pledged deposits amounting to HK$5.2 million as at 30 June 2003 (31 December 2002: HK$7.7 million). The Group had no bank borrowings during the period under review.

As at 30 June 2003, the Group's liabilities under equipment lease financing amounted to HK$3.8 million (31 December 2002: HK$7.4 million).

As at 30 June 2003, the net assets of the Group amounted to HK$188.0 million (31 December 2002: HK$196.4 million). The Group's gearing ratio, measured on the basis of total borrowings as a percentage of net assets, was 2.0% (31 December 2002: 3.8%).

Foreign exchange risks

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 and United States dollars exchange rate remains pegged.

Contingent liabilities and commitments

As at 30 June 2003, there were no material contingent liabilities or commitments.

Save as aforesaid, the directors are not aware of any other material changes from information disclosed in the 2002 annual report.

Employee remuneration policy

As of 30 June 2003, the Group had 193 employees (31 December 2002: 214 employees) in Hong Kong and overseas.

The Group's remuneration policies are in line with local market practices where the Group operates and are formulated on the basis of the performance and experience of individual employee. In addition to salary payment, the Group also offers to its employees other fringe benefits including provident fund and medical benefits.

CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not, throughout the six months ended 30 June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except that the non-executive directors of the Company are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the unaudited consolidated financial results for the six months ended 30 June 2003.

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.

PUBLICATION OF FURTHER INFORMATION

The 2003 interim report of the Company containing all information required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 of the Listing Rules will be published on both the Stock Exchange's website and the Company's website in due course.

APPRECIATION

The Board would like to thank the business associates, shareholders and customers for their continuous support and acknowledge its appreciation for the contribution and dedication of the Group's employees.

By Order of the Board
Richard John Siemens
Chairman

Hong Kong, 3 September 2003