

e-K<sup>港</sup>NG

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 2004

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 2004, together with comparative figures for the corresponding period in 2003. The results are 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 2004 (Unaudited) HK\$’000	2003 (Unaudited) HK\$’000
	Note		
Turnover	2	201,456	201,173
Cost of sales		(126,754)	(116,306)
Gross profit		74,702	84,867
Other revenue	3	474	248
		75,176	85,115
Distribution costs		(20,235)	(20,048)
Business promotion and marketing expenses		(3,434)	(3,025)
Operating and administrative expenses		(43,707)	(48,106)
Depreciation and amortisation		(25,508)	(22,538)
Loss from operations	4	(17,708)	(8,602)
Finance costs		(22)	(111)
Gain on disposal of discontinued operation		—	382
Loss from ordinary activities before taxation		(17,730)	(8,331)
Taxation	5	—	—
Loss from ordinary activities after taxation		(17,730)	(8,331)
Minority interests		30	—
Net loss attributable to shareholders		(17,700)	(8,331)
		HK\$	HK\$
Loss per share	6	(0.04)	(0.02)
Basic		N/A	N/A
Diluted		HK\$’000	HK\$’000
		7,800	14,318
EBITDA	7		

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 to 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 business segments and geographical segments during the period is as follows:

(a) by business segments:

	Six months ended 30 June					
	2004			2003		
	Telecom- munication services (Unaudited) HK\$’000	Others (Unaudited) HK\$’000	Consolidated (Unaudited) HK\$’000	Telecom- munication services (Unaudited) HK\$’000	Others (Unaudited) HK\$’000	Consolidated (Unaudited) HK\$’000
Turnover						
External sales	201,240	216	201,456	198,006	3,167	201,173
Result						
Loss from operations	(10,161)	(138)	(10,299)	(1,112)	(1,004)	(2,116)
Finance costs			(22)			(111)
Other operating income and expenses			(7,409)			(6,486)
Gain on disposal of discontinued operation			—			382
Loss from ordinary activities			(17,730)			(8,331)
Minority interests			30			—
Net loss attributable to shareholders			(17,700)			(8,331)

(b) by geographical segments:

	Six months ended 30 June					
	2004			2003		
	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	135,183	66,273	201,456	129,716	71,457	201,173
Result						
(Loss) / Profit from operations	(5,383)	(4,916)	(10,299)	(3,757)	1,641	(2,116)
Finance costs			(22)			(111)
Other operating income and expenses			(7,409)			(6,486)
Gain on disposal of discontinued operation			—			382
Loss from ordinary activities			(17,730)			(8,331)
Minority interests			30			—
Net loss attributable to shareholders			(17,700)			(8,331)

3. Other revenue

	Six months ended 30 June 2004 (Unaudited) HK\$’000	2003 (Unaudited) HK\$’000
Interest income	134	34
Others	340	214
	474	248

4. Loss from operations

This was arrived at after crediting:

	Six months ended 30 June 2004 (Unaudited) HK\$’000	2003 (Unaudited) HK\$’000
Gain on disposal of other investments	—	12

5. Taxation

Hong Kong Profits Tax and overseas taxation have not been provided as the Group has no assessable profit for the period (30 June 2003: Nil).

6. Loss per share

The calculation of basic loss per share for the six months ended 30 June 2004 is based on the consolidated loss attributable to shareholders of HK\$17,700,000 (30 June 2003: HK\$8,331,000) and on the weighted average number of 470,894,200 (30 June 2003: 470,894,200) shares in issue during the period.

The fully diluted loss per share for the six months ended 30 June 2003 and 2004 are not shown because the potential shares would decrease the loss per share and would be regarded as anti-dilutive.

7. EBITDA

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

8. Comparative figures

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

INTERIM DIVIDEND

The Board did not recommend payment of any interim dividend for the six months ended 30 June 2004 (30 June 2003: Nil).

BUSINESS REVIEW AND OUTLOOK

During the period under review, the Group focused on its telecommunications business with its operations in the United States, Hong Kong and Singapore accounting for almost the Group’s entire turnover. Revenue for this period derived from the ZONE telecommunications business increased by 1.6% from HK\$198.0 million for the first six months of 2003 to HK\$201.2 million for the period under review.

Total turnover of the Group was HK\$201.5 million compared to HK\$201.2 million for the same period in 2003. EBITDA for the Group was HK\$7.8 million for the six months ended 30 June 2004 compared to HK\$14.3 million for the prior period. Loss attributable to shareholders for the period was HK\$17.7 million compared to HK\$8.3 million for the previous corresponding period.

Turnover from ZONE operations in the United States (“ZONE US”) increased by 4.2%, from HK\$129.7 million for the prior period to HK\$135.2 million. While ZONE US experienced growth in the corporate segment, the residential market segment continued to be affected by intense competition particularly from the major incumbent operators that are offering attractive bundled local and long distance services. ZONE US accounted for 67.1% of the total Group turnover for this period, compared to 64.5% for the previous corresponding period.

Turnover from ZONE Hong Kong and ZONE Singapore (collectively “ZONE Asia”) for this period was HK\$66.0 million compared to HK\$68.3 million for the prior period. The operating environment remains very price sensitive, particularly in Hong Kong. Intense competition continues to trim operating margins and also increase in churn.

During this period, the Group pushed ahead with some of its strategic initiatives in pursuing expansion opportunities to complementary services. The Group is currently evaluating various technologies for deploying IP centric services and has also launched in Hong Kong an IP-based pilot program to assess the marketing, operational and cross-boundary issues of providing those services internationally. Discussions are also in progress with potential strategic partners.

Looking ahead for the next period, the Group’s existing business is likely to face ongoing competitive pressures and the market conditions are anticipated to remain challenging. The IP-related initiatives are not scheduled to be introduced until the end of the year. A modest revenue growth is expected from its existing businesses. The Group will continue to focus on enhancing financial and operational efficiencies.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial results

The Group’s turnover for the period under review increased by HK\$0.3 million to HK\$201.5 million compared to HK\$201.2 million for the corresponding period in 2003.

The gross profit for this period was HK\$74.7 million compared to HK\$84.9 million for the corresponding period in the previous year.

The gross profit for the period ended 30 June 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. The amount was offset against the cost of sales of the Group in 2003.

The gross profit for the period as a percentage of total turnover was 37.1% compared to 42.2% (or 38.1% if excluding the provision for rebate of USC) for the period ended 30 June 2003.

The Group’s EBITDA for the period under review was HK\$7.8 million compared to HK\$14.3 million for the prior period.

The operating loss for the period was HK\$17.7 million compared to HK\$8.6 million for the previous corresponding period.

Consolidated net loss attributable to shareholders was HK\$17.7 million compared to HK\$8.3 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\$34.3 million as at 30 June 2004 (31 December 2003: HK\$30.9 million). The Group had pledged deposits amounting to HK\$3.2 million as at 30 June 2004 (31 December 2003: HK\$3.3 million). The Group had no bank borrowings during the period under review.

As at 30 June 2004, the Group’s liabilities under equipment lease financing amounted to HK\$0.5 million (31 December 2003: HK\$0.6 million).

As at 30 June 2004, the net assets of the Group amounted to HK\$158.9 million (31 December 2003: HK\$176.6 million). The Group’s gearing ratio, measured on the basis of total borrowings as a percentage of net assets, was 0.3% (31 December 2003: 0.3%).

Foreign exchange risks

Since most of the Group’s assets and liabilities, revenue and payments are denominated in Hong Kong dollars or 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.

Contingent liabilities

As at 30 June 2004, there were no material contingent liabilities.

Save as aforesaid, the directors are not aware of any other material changes from information disclosed in the 2003 annual report.

Employee remuneration policy

As at 30 June 2004, the Group had 187 employees (31 December 2003: 186 employees) in Hong Kong and overseas.

The Group’s remuneration policies are formulated on the basis of the performance and experience of individual employee 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 payment, the Group also offers to its employees other fringe benefits including provident fund and medical benefits. Furthermore, pursuant to the share option schemes adopted by the Company, share options may be granted to eligible employees of the Group to subscribe for shares in the Company under the terms and conditions stipulated therein.

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 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), save that the non-executive directors of the Company are not appointed for a fixed term, but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company’s Bye-laws.

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 unaudited consolidated financial results for the six months ended 30 June 2004.

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 2004 interim report of the Company containing all information required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 to 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 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, 7 September 2004

As at the date of this announcement, the board of directors 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 and Mr. Matthew Brian Rosenberg.