

e-KONG
e-Kong Group Limited
(Incorporated in Bermuda with limited liability)
www.e-kong.com

FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2002

RESULTS

The board of directors (the “Board”) of e-Kong Group Limited (the “Company”) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2002, together with comparative figures in 2001, as follows:

Condensed Consolidated Income Statement

	<i>Note</i>	Year ended 31 December	
		2002 HK\$'000	2001 HK\$'000
Turnover	2	316,746	263,896
Cost of sales		(226,986)	(214,038)
Gross profit		89,760	49,858
Interest income		313	4,216
Other income		3,039	—
Distribution costs		(25,428)	(22,370)
Business promotion and marketing expenses		(6,853)	(31,166)
Operating and administrative expenses		(139,661)	(176,615)
Other operating expenses		(77,176)	(76,688)
Loss from operations		(156,006)	(252,765)
Finance costs		(1,080)	(1,216)
Intangible assets and goodwill written off		—	(114,795)
Provision for diminution in value of investment securities		(27,982)	(72,021)
Unrealised holding loss on other investments		(3,117)	(240,476)
Share of results of associates		1,911	(752)
Loss from ordinary activities before taxation		(186,274)	(682,025)
Taxation	3	—	—
Loss from ordinary activities after taxation		(186,274)	(682,025)
Minority interests		—	710
Net loss attributable to shareholders		(186,274)	(681,315)
		HK\$	HK\$
Loss per share	4	(0.74)	(6.75)
Basic		N/A	N/A
Diluted		N/A	N/A
		HK\$'000	HK\$'000
EBITDA	5	(109,084)	(218,160)

Notes:

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

The financial statements have been prepared in accordance with the Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the applicable disclosure requirements under the Hong Kong Companies Ordinance and 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 principal business activities and geographical area of operations during the year are as follows:

(a) *by business segments:*

	Year ended 31 December							
	2002				2001			
	Telecom- munication services	Corporate manage- ment services	Others	Consoli- dated	Telecom- munication services	Corporate manage- ment services	Others	Consoli- dated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover								
External sales	298,543	11,420	6,783	316,746	224,162	34,912	4,822	263,896
Result								
Loss from operations	(103,493)	(11,570)	(9,789)	(124,852)	(163,391)	(22,612)	(16,107)	(202,110)
Intangible assets and goodwill written off	—	—	—	—	(105,628)	(2,508)	(6,659)	(114,795)
	(103,493)	(11,570)	(9,789)	(124,852)	(269,019)	(25,120)	(22,766)	(316,905)
Finance costs				(1,080)				(1,216)
Other operating income and expenses				(31,154)				(50,655)
Unrealised holding loss on other investments				(3,117)				(240,476)
Provision for diminution in value of investment securities				(27,982)				(72,021)
Share of results of associates				1,911				(752)
Loss from ordinary activities				(186,274)				(682,025)
Minority interests				—				710
Net loss attributable to shareholders				(186,274)				(681,315)

(b) *by geographical segments:*

	Year ended 31 December					
	2002			2001		
	Asia Pacific	North America	Consolidated	Asia Pacific	North America	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover						
External sales	139,282	177,464	316,746	150,319	113,577	263,896
Result						
Loss from operations	(43,105)	(81,747)	(124,852)	(105,181)	(96,929)	(202,110)
Intangible assets and goodwill written off	—	—	—	(79,102)	(35,693)	(114,795)
	(43,105)	(81,747)	(124,852)	(184,283)	(132,622)	(316,905)
Finance costs			(1,080)			(1,216)
Other operating income and expenses			(31,154)			(50,655)
Unrealised holding loss on other investments			(3,117)			(240,476)
Provision for diminution in value of investment securities			(27,982)			(72,021)
Share of results of associates			1,911			(752)
Loss from ordinary activities			(186,274)			(682,025)
Minority interests			—			710
Net loss attributable to shareholders			(186,274)			(681,315)

3. **Taxation**

Hong Kong Profits Tax and overseas taxation have not been provided as the Group has no assessable profit for the year (2001: Nil).

4. **Loss per share**

The calculation of basic loss per share for the year ended 31 December 2002 was based upon the consolidated loss attributable to shareholders of HK\$186,274,000 (2001: loss of HK\$681,315,000) and on the weighted average number of 252,549,887 ordinary shares (2001: 100,890,430 ordinary shares) in issue during the year.

The fully diluted loss per share for 2001 and 2002 were not shown because the potential ordinary shares would decrease the loss per share and would be regarded as anti-dilutive.

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

5. **EBITDA**

EBITDA represents earnings before interest expenses, taxation, depreciation, amortization, intangible assets and goodwill written off, provision for diminution in value of investment securities, unrealised holding loss on other investments and the Group’s share of results of associates.

6. **Loss from operations**

This was arrived at after charging:

	Year ended 31 December	
	2002 HK\$'000	2001 HK\$'000
Depreciation of property, plant and equipment		
— owned assets	41,385	29,937
— assets held under finance leases	5,537	2,197
Amortization of intangible assets	—	2,471
Loss on disposal of other investments	13,865	3,807

7. **Comparative figures**

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

FINAL DIVIDEND

The Board did not recommend payment of any final dividend for the year ended 31 December 2002. (2001: Nil)

BUSINESS REVIEW AND OUTLOOK

Business Review and Outlook

During the year under review, the Group continued its strategic focus on building and growing the ZONE telecommunications business. Revenue from the ZONE business increased by 33.2% to HK\$298.5 million compared to HK\$224.2 million for the previous year. Through sustainable growth of the ZONE business in the United States, Hong Kong and Singapore, combined with prudent financial control and operational efficiencies, the Group was able to achieve further improvement in its operating results.

The ZONE operation in the United States recorded a revenue growth of 56.3%, increasing from HK\$113.6 million in 2001 to HK\$177.5 million. The operating loss for ZONE US reduced by 15.7% from HK\$96.9 million for the previous year to HK\$81.7 million. Its ZoneLD service targeted at residential customers and small businesses continued to increase its subscriber base mainly as a result of customers acquired through its on-line partners. Continued growth is expected to be derived mainly from the ZoneCMS service which is targeted at the enterprise and corporate customers.

In 2002, ZONE Hong Kong and ZONE Singapore collectively accounted for 38.2% of the Group’s revenue and achieved positive EBITDA (Earnings before Interest, Taxation, Depreciation and Amortization). Turnover for ZONE Hong Kong and ZONE Singapore, collectively, increased by 9.5% compared with the previous year from HK\$110.6 million to HK\$121.1 million.

Improvements in the operating result for ZONE Hong Kong was achieved mainly through increase in operating gross margins, reduction in customer churn and further operational efficiency gains. Looking ahead, ZONE Hong Kong will continue to improve its business performance through targeted sales and marketing initiatives, regular customer retention programs and the introduction of value-added services including fax to e-mail, international call forwarding, short messaging services (SMS) and calling card products aimed at niche markets.

ZONE Singapore achieved sustained growth in its customer base and revenue despite intense competition. ZONE Singapore was successful in securing arrangements with key carrier partners to provide high quality service at competitive price. This has resulted in an increase in the gross margin and has also enabled ZONE Singapore to competitively price its services to the business segment of the market.

Following the divestment of the Group’s interest in the event management-related business in January 2003, the revenue contribution from the non-telecom businesses will continue to be less significant in the coming year. In 2002, the revenue derived from the non-telecom subsidiaries was HK\$18.2 million, representing 5.8% of the Group’s total revenue.

Despite extremely competitive and difficult economic market conditions the Group has managed to record continuous revenue growth and steady improvements to its operating results in 2002. The Group’s key business focus in 2003 would be to continue its revenue growth while keeping tight financial and operational discipline with the objective of achieving positive EBITDA. The Group will focus on increasing its sales and marketing efforts, improving customer retention and introducing additional innovative value-added services in order to improve ZONE’s operating results.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The Group’s turnover for the year increased by 20% to HK\$316.7 million compared with HK\$263.9 million in 2001. The ZONE telecommunications business continues to be the main revenue growth driver of the Group.

The gross profit increased by 80% from HK\$49.9 million in 2001 to HK\$89.8 million. The gross profit as a percentage of turnover increased from 18.9% for 2001 to 28.3% for 2002 mainly due to the ZONE business being able to negotiate better pricing with the telecommunications carriers.

With the increase in turnover, higher gross margins and lower operating costs within the Group, EBITDA loss improved from HK\$218.1 million for 2001 to HK\$109.1 million for 2002.

The operating loss for the year was HK\$156 million compared with HK\$252.8 million for the previous year. Consolidated net loss attributable to shareholders declined to HK\$186.3 million from HK\$681.3 million. Non-recurring losses for the year, including the provision for diminution in value of investment securities of HK\$28 million, were HK\$31.1 million compared with HK\$427.3 million in 2001.

Financial Resources, Liquidity and Gearing Ratio

The Company completed a rights issue of 235,447,100 rights shares of HK\$0.01 each at a price of HK\$0.12 per rights share in December 2002 immediately after the Capital Reorganization as mentioned below and raised net proceeds of approximately HK\$25.75 million. The net proceeds are being used as general working capital for the Group’s existing telecommunication business.

The Group relied on its internal resources, including the net proceeds from the rights issue, to fund its operations during the year.

Cash and bank balances (excluding pledged deposits) were HK\$31.1 million as at 31 December 2002 (2001: HK\$111.3 million). The Group had pledged deposits amounting to HK\$7.7 million as at 31 December 2002 (2001: HK\$7.1 million). The Group had no bank borrowings during the year.

As at 31 December 2002, the Group’s liabilities under equipment lease financing amounted to HK\$7.4 million (2001: HK\$16.3 million).

As at 31 December 2002, the net assets of the Group amounted to HK\$196.4 million (2001: HK\$357.3 million). The Group’s gearing ratio, measured on the basis of total borrowings as a percentage of net assets, was 3.8% (2001: 4.6%).

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-United States dollar exchange rate remains pegged.

Contingent Liabilities and Commitments

As at 31 December 2002, there are no material contingent liabilities and commitments.

Capital Reorganization

In November 2002, the Company completed a capital reorganization exercise implemented by means of capital reduction, share consolidation, share premium cancellation and share subdivision. As a result (but before the completion of the rights issue described above), the issued share capital of the Company

was divided into 235,447,100 shares of HK\$0.01 each from 4,708,942,008 shares of HK\$0.02 each and a total amount of HK\$1,288,062,660 arising from the capital reduction and the share premium cancellation were applied towards the elimination of the Company’s accumulated losses and the balance thereof credited to the contributed surplus account of the Company. In addition, each board lot of shares in the Company was changed from 4,000 shares of HK\$0.02 each to 10,000 shares of HK\$0.01 each after the Capital Reorganization.

Employee Remuneration Policy

As of 31 December 2002, the Group had 214 employees (2001: 226 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.

SUBSEQUENT EVENT

In January 2003, the Group entered into a sale and purchase agreement with an independent third party to dispose of two of the Group’s subsidiaries at a consideration of HK\$1.5 million. Those subsidiaries held substantially all assets and liabilities acquired, created and assumed by the event management-related business undertaken by the Group.

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 2002, 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”).

AUDIT COMMITTEE

The Audit Committee has reviewed with the management 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 financial statements for the year ended 31 December 2002.

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 2002 annual report of the Company containing all information required by paragraphs 45(1) to 45(3) 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 express its sincerest thanks and appreciation to all colleagues for their loyalty and full support to the Group during the year.

By Order of the Board
Richard John Siemens
Chairman

Hong Kong, 10 April 2003

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 Room 3805, Tower II, Lippo Centre, 89 Queensway, Hong Kong, on Friday, 23 May 2003 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 2002 and the reports of directors and of the auditors thereon;
- 2. To re-elect retiring directors and to fix their remuneration;
- 3. To re-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 redemption or conversion rights attaching to the non-cumulative convertible redeemable preference shares of HK\$1.00 each in the capital of the Company which may be issued by the Company; or
 - (v) 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 whichever is the earlier 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; or
- (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 the 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 the 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/or 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 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 whichever is the earlier 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; or
 - (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 at the date of passing this Resolution.”

By Order of the Board
Wang Poey Foon, Angela
Company Secretary

Hong Kong, 10 April 2003

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 notarially certified copy of such power of attorney or authority, must be deposited at the Company’s branch share registrars 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 thereof.
- 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 be 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. An explanatory statement containing further details regarding Resolution 4 above will be sent to members and other persons who are entitled thereto together with the Company’s 2002 Annual Report.