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 2007

HIGHLIGHTS

- Turnover increased to HK$398.0 million as compared to HK$330.7 million for the corresponding period in 2006
- EBITDA was up by HK$10.3 million to HK$38.5 million while net profit was up from HK$22.8 million to HK$26.6 million
- Cash and bank balances increased by 60.3% to HK$160.9 million
- ZONE US signed an agreement with a major wireless service provider and will offer MVNO mobile services in the United States by year end
- ZONE Asia established a presence in China and commenced business with Chinese enterprises in Shenzhen in the reselling of telecommunication products and services

INTERIM RESULTS

The board of directors (the "Board") of e-Kong Group Limited (the "Company") herein announces the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2007, together with comparative figures for the corresponding period in 2006. The results were unaudited but have been reviewed by the Audit Committee and the auditors of the Company.

Condensed Consolidated Income Statement

		Six months ended 30 June	
		2007	2006
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Turnover	*2*	**397,956**	330,709
Cost of sales		**(294,011)**	(234,882)
Gross profit		**103,945**	95,827
Other income	*3*	**19,357**	1,228
		123,302	97,055
Selling and distribution expenses		**(29,100)**	(26,620)
Business promotion and marketing expenses		**(4,068)**	(2,760)
Operating and administrative expenses		**(51,613)**	(39,411)
Depreciation and amortisation		**(8,466)**	(2,688)
Profit from operations		**30,055**	25,576
Finance costs	*4*	**(1,229)**	(1,379)
Profit before taxation	*4*	**28,826**	24,197
Taxation	*5*	**(2,227)**	(1,423)
Profit for the period		**26,599**	22,774
Attributable to:			
Equity holders of the Company		**26,659**	22,774
Minority interests		**(60)**	–
		26,599	22,774
EBITDA	*6*	**38,521**	28,264
		HK cents	*HK cents*
Earnings per share	*7*		
Basic		**5.3**	4.8
Diluted		**N/A**	N/A

Condensed Consolidated Balance Sheet

	Notes	As at 30 June 2007 (Unaudited) HK$'000	As at 31 December 2006 (Audited) HK$'000
Non-current assets			
Property, plant and equipment		**15,914**	17,117
Intangible assets	*8*	**46,776**	51,659
Deferred tax assets		**10,866**	10,866
		73,556	79,642
Current assets			
Trade and other receivables	*9*	**104,275**	86,630
Pledged bank deposits		**2,050**	1,547
Cash and bank balances		**160,853**	100,362
		267,178	188,539
Current liabilities			
Trade and other payables	*10*	**104,603**	99,686
Current portion of bank borrowings		**9,513**	9,188
Current portion of obligations under finance leases		**202**	198
Taxation payable		**3,142**	3,996
		117,460	113,068
Net current assets		**149,718**	75,471
Total assets less current liabilities		**223,274**	155,113
Non-current liabilities			
Bank borrowings		**17,748**	22,577
Obligations under finance leases		**317**	419
NET ASSETS		**205,209**	132,117
Capital and reserves			
Share capital		**5,229**	4,709
Reserves		**198,952**	127,408
Equity attributable to equity holders of the Company		**204,181**	132,117
Minority interests		**1,028**	–
TOTAL EQUITY		**205,209**	132,117

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”). The accounting policies and bases of preparation adopted in these interim financial statements are consistent with those adopted in the Company’s 2006 Annual Report.

The Group has not early adopted the new and revised standards or interpretations issued by HKICPA that are not yet effective for the current period. The Group anticipates that the adoption of these standards or interpretations in the future periods will have no material impact on the results of the Group.

2. Turnover and segmental information

Analyses of the Group’s turnover and results by geographical and business segments during the period are as set out below.

(a) *By geographical segments:*

	Six months ended 30 June						
	2007				2006		
	North America (Unaudited) *HK$’000*	**Asia Pacific (Unaudited)** *HK$’000*	**Eliminations (Unaudited)** *HK$’000*	**Consolidated (Unaudited)** *HK$’000*	North America (Unaudited) *HK$’000*	Asia Pacific (Unaudited) *HK$’000*	Consolidated (Unaudited) *HK$’000*
Turnover							
External sales	**349,476**	**48,480**	**–**	**397,956**	276,158	54,551	330,709
Inter-segment sales	**–**	**664**	**(664)**	**–**	–	–	–
	349,476	**49,144**	**(664)**	**397,956**	276,158	54,551	330,709
Results							
Segment results	**11,598**	**11,655**	**–**	**23,253**	15,477	13,406	28,883
Finance costs				**(1,229)**			(1,379)
Other operating income and expenses				**6,802**			(3,307)
Profit before taxation				**28,826**			24,197
Taxation				**(2,227)**			(1,423)
Profit for the period				**26,599**			22,774

Inter-segment sales are charged at prevailing market prices.

(b) By business segments:

	Six months ended 30 June					
	2007			2006		
	Telecom-munication services (Unaudited) *HK$'000*	**Other (Unaudited)** *HK$'000*	**Consolidated (Unaudited)** *HK$'000*	Telecom-munication services (Unaudited) *HK$'000*	Other (Unaudited) *HK$'000*	Consolidated (Unaudited) *HK$'000*
Turnover						
External sales	**396,177**	**1,779**	**397,956**	325,772	4,937	330,709
Results						
Segment results	**23,284**	**(31)**	**23,253**	28,863	20	28,883
Finance costs			**(1,229)**			(1,379)
Other operating income and expenses			**6,802**			(3,307)
Profit before taxation			**28,826**			24,197
Taxation			**(2,227)**			(1,423)
Profit for the period			**26,599**			22,774

3. Other income

	Six months ended 30 June	
	2007 (Unaudited) *HK$'000*	2006 (Unaudited) *HK$'000*
Interest income on bank deposits	**1,955**	1,220
Gain on the deemed partial disposal of subsidiary *(Note)*	**17,402**	–
Others	**–**	8
	19,357	1,228

Note: The gain on the deemed partial disposal of subsidiary arose from the subscription by an institutional investor for 5% of the share capital of a subsidiary.

4. Profit before taxation

This is stated after charging:

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Finance costs		
Interest on bank loan and other borrowings	**(1,218)**	(1,365)
Finance charges on obligations under finance leases	**(11)**	(14)

5. Taxation

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current tax		
Hong Kong profits tax	**–**	–
Overseas income taxes	**(2,227)**	(1,138)
	(2,227)	(1,138)
Deferred tax		
Origination and reversal of temporary differences	**–**	(285)
	(2,227)	(1,423)

Overseas taxation represents income taxes provided by certain subsidiaries, calculated at the tax rates prevailing in the countries in which the subsidiaries operate.

6. EBITDA

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

7. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2007 was based on the consolidated profit attributable to equity holders of the Company of HK$26,659,000 (30 June 2006: HK$22,774,000) and on the weighted average number of 506,518,509 (30 June 2006: 470,894,200) shares in issue during the period.

The diluted earnings per share for the six months ended 30 June 2007 and 2006 have not been presented as the exercise prices of the share options were higher than the average market price of the shares.

8. Intangible assets

	As at 30 June 2007 (Unaudited) *HK$'000*	As at 31 December 2006 (Audited) *HK$'000*
Development costs	**3,547**	3,137
Customer contracts	**52,933**	52,933
	56,480	56,070
Less: amortisation	**(9,704)**	(4,411)
	46,776	51,659

Development costs represent the costs incurred for the development of new IP-based communication products and services.

Customer contracts represent intangible assets purchased pursuant to an asset purchase agreement with a third party to acquire certain telecommunication service assets in connection with the provision of long distance telecommunication services in the United States. The costs were capitalised and are being amortised under the straight-line method over 5 years.

9. Trade and other receivables

	As at 30 June 2007 (Unaudited) *HK$'000*	As at 31 December 2006 (Audited) *HK$'000*
Trade receivables	**93,785**	76,119
Other receivables		
Deposits, prepayments and other debtors	**10,490**	10,511
	104,275	86,630

The Group's credit terms on sales mainly range from 30 to 90 days. Included in trade and other receivables are trade debtors (net of provision for bad and doubtful debts) with the following ageing analysis:

	As at 30 June 2007 (Unaudited) *HK$'000*	As at 31 December 2006 (Audited) *HK$'000*
Current	**86,737**	68,042
1 to 3 months	**6,836**	7,858
More than 3 months but less than 12 months	**212**	219
	93,785	76,119

10. Trade and other payables

	As at 30 June 2007 (Unaudited) *HK$'000*	As at 31 December 2006 (Audited) *HK$'000*
Trade payables	**39,727**	44,924
Other payables		
Accrued charges and other creditors	**64,876**	54,762
	104,603	99,686

Included in trade and other payables are trade creditors with the following ageing analysis:

	As at 30 June 2007 (Unaudited) *HK$'000*	As at 31 December 2006 (Audited) *HK$'000*
Current	**34,095**	26,733
1 to 3 months	**5,538**	17,992
More than 3 months but less than 12 months	**94**	199
	39,727	44,924

11. Comparative figures

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

INTERIM DIVIDEND

The Board does not recommend the payment of a dividend for the six months ended 30 June 2007 (30 June 2006: Nil).

BUSINESS REVIEW AND OUTLOOK

During the period under review, the Group continued to achieve an increase in turnover while maintaining profitable results. Turnover of the Group amounted to HK$398.0 million, up 20.3% from HK$330.7 million for the previous corresponding period. ZONE telecommunication operations in the United States remained the key contributor towards the Group's revenue growth for this period. The Group's net profit increased by 16.8% from HK$22.8 million for the corresponding period in 2006 to HK$26.6 million. EBITDA increased 36.3% to HK$38.5 million when compared to HK$28.3 million for the corresponding period in the previous year. The Group further strengthened its balance sheet position with total net assets of HK$205.2 million, representing an increase of 55.3% over the prior year, while cash and bank balances increased by 60.3% to HK$160.9 million.

ZONE operations in the United States ("ZONE US") achieved turnover of HK$349.5 million during the first six months of 2007 which represented an increase of HK$73.3 million over the same period of 2006. This increased turnover was based primarily on growth in sales to the wholesale segment of ZONE US's customer base which comprises one-third of independent local exchange carriers ("ILECs") located throughout the United States and other carrier customers. This segment of revenue increased from about one-third of the total revenue of ZONE US for the previous corresponding period and now accounts for more than half of total revenue for the period under review. Over the course of the first half of 2007, ZONE US has taken steps to improve efficiencies in its existing facilities, and to add suites of new products and services for its different categories of customers. Increased utilisation of the Company's switch facilities and the implementation of advanced routing capabilities have helped to improve margins on telecom traffic. The use of Voice-over-Internet Protocol ("VoIP") technologies has presented ZONE US with a multitude of new routing options, including sending IP wholesale traffic to and from its associates in Asia and business partners globally.

ZONE US has reached an agreement with a major nationwide US wireless network provider which will enable the Group to penetrate into the domestic US mobile market as a Mobile Virtual Network Operator (MVNO) before the end of 2007. ZONE will, as an initial stage, offer cellular services to its ILEC customers which will in turn render mobile voice and data services to their end user customers under the ILEC's own brand name. This additional range of services has been received by ZONE's ILEC customers with enthusiasm, as it provides them with a seamless way to add a mobile product to their existing fixed line offerings. It is expected to further solidify the relationships between participating ILECs and ZONE US.

Turnover from ZONE's operations in Asia ("ZONE Asia") decreased by HK$2.9 million to HK$46.7 million as compared to HK$49.6 million for the previous period. Profit from ZONE Asia's operations for the period under review was HK$11.7 million compared to HK$13.4 million for the previous period. These reductions in revenue and profit in Asia are mainly due to a lower contribution from ZONE operations in Hong Kong where the telecommunication sector remains highly competitive with major fixed line operators still aggressively pricing their services in order to gain market share.

ZONE Hong Kong operations continue to move forward with its strategic plan to expand into China. After establishing a wholly foreign-owned enterprise (WFOE) named深圳盈港科技有限公司 in March 2007 and having set up its operating office in Shenzhen, ZONE has successfully concluded business management and consultancy arrangements in August with two local Chinese enterprises, both of which are reselling telecommunication products and services to business customers in the Shenzhen area for the major telecom operators in China. Under the arrangements, ZONE utilises its key operational staff and management systems from its Hong Kong office to work with these enterprises in order to develop their telecommunication-related businesses and receive the economic benefits thereof while maintaining effective control over the business and operations of the local Chinese enterprises.

ZONE Singapore maintained its intense marketing drive to grow its customer base, with particular focus on acquiring high value corporate customers. It continues to introduce innovative product packaging and value-added services to differentiate itself from its competitors. This strategy has contributed to favourable results in terms of both revenue and earnings during the first six months as compared to the same period last year. With its deployment of VoIP technologies, ZONE Singapore is now also providing telecom services to an increasing number of customers around the region as well as expanding into IP wholesale voice traffic business, thus broadening its revenue and customer base. ZONE Singapore will continue to deploy new technologies to improve efficient use of network resources. Lower operating costs and healthier margins are expected with the use of the new IP-based technologies.

ZONE Asia's global VoIP offering "ZoiPPE" (*www.zoippe.com*) continues to focus on increasing its user base through viral marketing and co-branding/white-labelling alliances and partnerships. To facilitate its reach into other larger markets, besides English and Chinese (both traditional and simplified) languages, the ZoiPPE softphone interface is also available in Japanese and it is in the pipeline to add other languages including Thai, Korean and Hindi. Upgrades and other enhancements are being incorporated into the communication service platform to improve the system robustness as well as to introduce new features and increase the mix of product offerings.

In February 2007, the Group successfully completed a placement of 52 million shares of the Company, generating net proceeds of approximately HK$45.4 million and recording share premium of HK$44.9 million. At the same time, the Group raised additional capital of US$2.5 million (approximately HK$19.5 million) from an institutional investor for development of the ZoiPPE business, realising a gain of HK$17.4 million.

During the first six months, in addition to the business development initiatives in the Shenzhen area, the Group has been actively exploring various opportunities to penetrate, by way of acquisition or otherwise, into the telecommunication-related sector in China.

During the period under review, the Group delivered on its objectives to continue to grow both revenue and profit, to establish a business presence in China and to enhance the technology robustness and scalability of the ZoiPPE platform and intensify its promotion drive globally.

Looking ahead to the second half of 2007, the Group anticipates that steady revenue growth will be maintained, ZONE's operations in China will begin to contribute to the Group's turnover and the ZoiPPE user base will be further increased following the introduction of new features and improvements in system robustness while the Group will strive to create new revenue stream opportunities. The Group is excited about entering the domestic US mobile market as an MVNO this period and is confident of the growth potential for this latest service offering.

FINANCIAL REVIEW

Results

During the period under review, the Group's turnover recorded significant growth and reached HK$398.0 million, representing an increase of 20.3% when compared to HK$330.7 million for the corresponding period in 2006.

The gross profit for this period increased by 8.5% to HK$103.9 million, compared to HK$95.8 million for the corresponding period in the previous year.

The Group's EBITDA for the period under review reached HK$38.5 million, representing an increase of 36.3% from HK$28.3 million for the same period last year.

The operating profit for the period amounted to HK$30.1 million, representing an increase of 17.5% when compared to HK$25.6 million for the first six months of 2006.

Consolidated net profit attributable to equity holders of the Company increased by 17.1% to HK$26.7 million when compared to HK$22.8 million for the previous corresponding period.

Interim Dividend

The Board does not recommend the payment of a dividend for the six months ended 30 June 2007 (30 June 2006: Nil).

Capital Structure, Liquidity and Financing

The Group's liquidity position was further strengthened by the continuing growth of the ZONE business around the world, as well as the private placement of shares of the Company and the allotment of 5% shareholding interest in a subsidiary in February 2007. The net assets of the Group improved to HK$205.2 million as at 30 June 2007 (31 December 2006: HK$132.1 million).

With an enhanced capital structure and operating cash flow, cash and bank balances (excluding pledged bank deposits) amounted to HK$160.9 million as at 30 June 2007 (31 December 2006: HK$100.4 million). The Group had pledged bank deposits amounting to HK$2.1 million as at 30 June 2007 (31 December 2006: HK$1.5 million) to banks for guarantees made by them to certain telecommunication carriers for payments due by the Group.

As at 30 June 2007, the Group's bank borrowings, represented by the bank loan advanced to a subsidiary for the purpose of the WRLD Alliance transaction, reduced to HK$27.3 million (31 December 2006: HK$31.8 million) as a result of partial repayment of principal during the period. The Group's bank borrowings are in United States dollars at a fixed interest rate and secured through, among others, a pledge of the trade receivables of the subsidiary.

As at 30 June 2007, the Group's liabilities under equipment lease financing amounted to HK$0.5 million (31 December 2006: HK$0.6 million).

The Group's gearing ratio, measured on the basis of total borrowings as a percentage of net assets, improved to 13.5% (31 December 2006: 24.5%) mainly due to the enhanced capital structure and profits for the period.

Foreign Exchange Exposure

Since most of the Group's assets and liabilities, revenue and payments are denominated in Hong Kong and United States dollars, the Group considers there is no significant exposure to foreign exchange fluctuations so long as the Hong Kong-United States dollar exchange rate remains pegged. As cash contributions from the Singapore operations continue to grow, the Group will closely monitor the Singapore-United States dollar exchange rate and, whenever appropriate, take any necessary action to reduce such exchange risks.

Contingent Liabilities and Commitments

As at 30 June 2007, there were no material contingent liabilities and commitments.

EMPLOYEE REMUNERATION POLICIES

As at 30 June 2007, the Group employed, altogether, 146 employees (31 December 2006: 145 employees) in Hong Kong and overseas. The Group's total staff costs for the six months ended 30 June 2007 amounted to HK$40.2 million (30 June 2006: HK$34.9 million).

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 its 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. Except for a deviation described below, 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 2007, acting in compliance with the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Listing Rules.

CG Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Nevertheless, Mr. Richard John Siemens, the Chairman of the Company, assumed the role of the chief executive officer of the Company following the passing away of Mr. Kuldeep Saran, the then Deputy Chairman and Managing Director, on 16 June 2007. The Board anticipates that the role of the chief executive officer by Mr. Siemens is only an interim measure.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own securities code. All directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standards set out in the Model Code throughout the six months ended 30 June 2007.

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 statements of the Company for the six months ended 30 June 2007. The review conducted by the auditors of the Company were in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

CHANGE OF AUDITORS

The Company announced on 5 June 2007 that Messrs. Moores Rowland Mazars resigned as auditors of the Group following the reorganisation of the firm and Mazars CPA Limited was appointed as auditors of the Group on 1 June 2007.

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

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

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT

This interim results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk under "Latest Listed Companies Information" and on the website of the Company at www.e-kong.com under "Investors' Information/ Announcements".

APPRECIATION

The Board wishes to express its sincere appreciation to Mr. Kuldeep Saran, the Deputy Chairman and Managing Director of the Company who passed away on 16 June 2007, for his invaluable leadership and contribution to the Group in the past.

The Board would also 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 during the period.

By Order of the Board
Richard John Siemens
Chairman

Hong Kong, 18 September 2007

As at the date of this announcement, the Board of the Company comprised of Executive Directors, Richard John Siemens and Lim Shyang Guey; Non-executive Director, William Bruce Hicks and Independent Non-executive Directors, Shane Frederick Weir, John William Crawford and Gerald Clive Dobby.