e-Kong Group Limited

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

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2002

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 (the "Group") for the six months ended 30 June 2002, together with comparative figures for the corresponding period in 2001. 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 2002 (Unaudited) HK$'000	2001 (Unaudited) HK$'000
Turnover	2	**140,592**	126,923
Cost of sales		**(102,909)**	(101,170)
Gross profit		**37,683**	25,753
Other revenue	3	**1,261**	3,747
		38,944	29,500
Distribution costs		**(12,736)**	(11,296)
Business promotion and marketing expenses		**(3,767)**	(20,688)
Operating and administrative expenses		**(78,756)**	(108,469)
Depreciation and amortisation		**(22,686)**	(16,342)
Loss from operations		**(79,001)**	(127,295)
Finance costs		**(770)**	(105)
Intangible assets and goodwill written off		**–**	(112,956)
Provision for diminution in value of investment securities		**(26,882)**	(118,945)
Unrealised holding loss on other investments		**(8,675)**	(177,283)
Share of results of associates		**–**	(501)
Loss from ordinary activities before taxation		**(115,328)**	(537,085)
Taxation	4	**–**	–
Loss from ordinary activities after taxation		**(115,328)**	(537,085)
Minority interests		**–**	–
Net loss attributable to shareholders		**(115,328)**	(537,085)
Loss per share	5		
Basic		**(2.45) cents**	(29.89) cents
Diluted		**N/A**	N/A
EBITDA	6	**(56,315)**	(110,953)

Notes:

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

   The condensed consolidated interim financial statements are 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 principal business activities and geographical area of operations during the period are as follows:

   (a) by business segments:

	Six months ended 30 June 2002 Telecommunication services (Unaudited) HK$'000	Others (Unaudited) HK$'000	Consolidated (Unaudited) HK$'000	Six months ended 30 June 2001 Telecommunication services (Unaudited) HK$'000	Others (Unaudited) HK$'000	Consolidated (Unaudited) HK$'000
Turnover						
External sales	**131,187**	**9,405**	**140,592**	105,078	21,845	126,923
Result						
Loss from operations	**(62,708)**	**(8,477)**	**(71,185)**	(84,394)	(21,677)	(106,071)
Intangible assets and goodwill written off	**–**	**–**	**–**	(105,718)	(7,238)	(112,956)
	(62,708)	**(8,477)**	**(71,185)**	(190,112)	(28,915)	(219,027)
Finance costs			**(770)**			(105)
Other operating income and expenses			**(7,816)**			(21,224)
Unrealised holding loss on other investments			**(8,675)**			(177,283)
Provision for diminution in value of investment securities			**(26,882)**			(118,945)
Share of results of associates			**–**			(501)
Net loss attributable to shareholders			**(115,328)**			(537,085)

   (b) by geographical segments:

	Six months ended 30 June 2002 Asia Pacific (Unaudited) HK$'000	North America (Unaudited) HK$'000	Consolidated (Unaudited) HK$'000	Six months ended 30 June 2001 Asia Pacific (Unaudited) HK$'000	North America (Unaudited) HK$'000	Consolidated (Unaudited) HK$'000
Turnover						
External sales	**64,249**	**76,343**	**140,592**	71,420	55,503	126,923
Result						
Loss from operations	**(14,264)**	**(56,921)**	**(71,185)**	(58,709)	(47,362)	(106,071)
Intangible assets and goodwill written off	**–**	**–**	**–**	(77,263)	(35,693)	(112,956)
	(14,264)	**(56,921)**	**(71,185)**	(135,972)	(83,055)	(219,027)
Finance costs			**(770)**			(105)
Other operating income and expenses			**(7,816)**			(21,224)
Unrealised holding loss on other investments			**(8,675)**			(177,283)
Provision for diminution in value of investment securities			**(26,882)**			(118,945)
Share of results of associates			**–**			(501)
Net loss attributable to shareholders			**(115,328)**			(537,085)

3. **Other revenue**

	Six months ended 30 June 2002 (Unaudited) HK$'000	2001 (Unaudited) HK$'000
Interest income	**248**	3,747
Others	**1,013**	–
	1,261	3,747

4. **Taxation**

   Hong Kong Profits Tax and overseas taxation have not been provided as the Group has no assessable profits for the period (30 June 2001: Nil).

5. **Loss per share**

   The calculation of basic loss per share for the six months ended 30 June 2002 was based upon the consolidated loss attributable to shareholders of HK$115,328,000 (30 June 2001 : HK$537,085,000) and on the weighted average number of 4,699,262,008 (30 June 2001: 1,797,078,196) ordinary shares in issue during the period.

   The fully diluted loss per share for 2001 and 2002 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 rights issue of 3,139,294,672 shares of the Company in December 2001.

6. **EBITDA**

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

7. **Comparative figures**

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

INTERIM DIVIDEND

The Board has not recommended the payment of any interim dividend for the six months ended 30 June 2002 (30 June 2001: Nil).

BUSINESS REVIEW AND OUTLOOK

During the period under review the key focus of the Group was on the ZONE telecommunications business. The ZONE business in Hong Kong, Singapore and the United States accounted for 93% of the Group's total revenue. Revenue from the ZONE business increased by 24.9% to HK$131.1 million compared with HK$105.1 million for the previous corresponding period.

Revenue for this period from the ZONE business in the United States increased by 37.6% to HK$76.3 million from HK$55.5 million for the previous corresponding period. The operating loss for ZONE US was HK$56.9 million compared with HK$47.4 million for the previous corresponding period. Operating expenses for ZONE US peaked during this period. Additional cost was incurred in product development and operational set-up to meet the more demanding needs of the business segment of the US market. As most of these efforts are now completed, the operating cost is anticipated to decrease in the coming period.

Despite intense competition and difficult economic times, ZONE Hong Kong achieved positive EBITDA for this period. This was attained through gross margin improvements, increased operational efficiencies and a marginal revenue growth. Competitive pressures will continue to affect gross margins but as ZONE Hong Kong achieves economic scale, incremental revenue growth will not require corresponding increase in operating expenses. Looking ahead, ZONE Hong Kong will continue to concentrate on its sales and marketing, and ongoing operational cost control efforts. Minimal capital expenditure is expected for the next period.

ZONE Singapore achieved positive EBITDA on a month-on-month basis from the second quarter of this year. More than 50% of ZONE Singapore's revenue for this period was generated from its business customers as a result of increased sales and marketing initiatives targeting the business segment of the market. Improvements in call quality and a better understanding of ZONE's value-added features has helped increase penetration rate into the Singapore's corporate sector.

The revenue from the Group's non-telecom subsidiaries declined from HK$21.8 million for the previous corresponding period to HK$9.4 million for this period. The Group will continue to explore opportunities through partnerships and alliances with key players in the respective industries in order to enhance the value of these subsidiaries.

As the Group's non-core investments, mostly acquired in year 2000 are no longer considered strategic, it will continue to divest these investments as appropriate and reallocate resources to the core business.

The general economic environment of the countries in which the Group operates is unlikely to improve for the second half of the year. Its adverse effects are reflected in the slower than expected revenue growth of the Group for this period. However, the Group's key operating subsidiaries have proven to have a competitive edge to grow its market share whilst continuing to improve their overall operating efficiencies. ZONE Hong Kong and Singapore are expected to contribute positively towards the Group's cashflow for the coming period. The Group will continue to invest in growing the revenue of the ZONE business in the US, particularly in the enterprise and corporate markets, while exercising tight financial control on its operating cost.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial results

Group turnover for the period under review increased by 10.8% to HK$140.6 million compared with HK$126.9 million for the corresponding period in 2001. The ZONE telecommunications business continues to be the main revenue growth driver of the Group.

The operating loss for the period was HK$79 million compared with HK$127.3 million for the previous corresponding period. The decrease in the operating loss was mainly a result of ongoing improvements in operational efficiencies within the Group and the ZONE subsidiaries in Singapore and Hong Kong achieving positive EBITDA. Consolidated net loss attributable to shareholders declined to HK$115.3 million from HK$537.1 million. Non-recurring losses for the period were HK$35.6 million compared with HK$409.2 million for the previous period.

Financial resources, liquidity and gearing ratio

The Group relied on its internal resources, including the net proceeds of HK$128 million raised from the rights issue in December 2001, to fund its operations during the period.

Cash and bank balances (excluding pledged deposits) were HK$33.1 million as at 30 June 2002 (31 December 2001: HK$111.3 million). The Group had pledged deposits amounting to HK$7.7 million as at 30 June 2002 (31 December 2001: HK$7.1 million). The Group had no bank borrowings during the period under review.

As at 30 June 2002, the Group's liabilities under equipment lease financing amounted to HK$10.7 million (31 December 2001: HK$16.3 million).

As at 30 June 2002, the net assets of the Group amounted to HK$241.5 million (31 December 2001 : HK$357.3 million). The Group's gearing ratio, measured on the basis of total borrowings as a percentage of net assets, was 4.4% (31 December 2001: 4.6%).

Foreign exchange risks

Since most of the Group's assets and liabilities, revenue and payments are mainly denominated in Hong Kong dollars and United States dollars, the Group considers the exposure to foreign exchange fluctuations is minimal.

Contingent liabilities and commitments

As at 30 June 2002, there are no material contingent liabilities and commitments.

Save as aforesaid, the directors are not aware of any other material changes from information disclosed in the 2001 annual report.

Employee and remuneration policy

As at 30 June 2002, the Group had approximately 269 employees (30 June 2001 : 250 employees) in Hong Kong and overseas. The Group's remuneration policies, including both salaries and bonuses, are in line with local market practices where the Company and its subsidiaries operate 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 subsidies. The Company also granted share options to eligible employees of the Group, including directors of the Company.

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 period ended 30 June 2002, 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").

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 2002.

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 2002 interim report 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, 19 September 2002