# e-Kong Group Limited

*(Incorporated in Bermuda with limited liability)*
www.e-kong.com
(Stock Code: 524)

## FINAL RESULTS
## FOR THE YEAR ENDED 31 DECEMBER 2006

**HIGHLIGHTS**

- Turnover increased 66.3% to HK$702.8 million
- Operating profit increased 23.1% to HK$47.5 million and EBITDA was up 26.5% to HK$57.2 million
- Bank balances and cash increased 70.9% to HK$100.4 million
- The Group launched its latest global VoIP service "ZoiPPE" in December 2006
- The Group continues its efforts to penetrate into the China market
- In February 2007, altogether HK$64.3 million was raised by placing 52 million shares in the Company and an institutional investor subscribing for 5% shareholding interest in the subsidiary operating the ZoiPPE business

**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 2006, together with comparative figures for 2005, as follows:

**Consolidated Income Statement**

| | | **Year ended 31 December** | |
|---|---|---|---|
| | | **2006** | 2005 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Turnover | *2* | **702,810** | 422,590 |
| Cost of sales | | **(509,718)** | (267,649) |
| Gross profit | | **193,092** | 154,941 |
| Interest income | | **2,326** | 589 |
| Other income | | **397** | 8,313 |
| | | **195,815** | 163,843 |
| Selling and distribution expenses | | **(55,343)** | (42,212) |
| Business promotion and marketing expenses | | **(4,635)** | (3,068) |
| Operating and administrative expenses | | **(76,419)** | (66,760) |
| Other operating expenses | | **(11,928)** | (13,237) |
| Profit from operations | | **47,490** | 38,566 |
| Finance costs | *6* | **(2,859)** | (34) |
| Profit before taxation | *6* | **44,631** | 38,532 |
| Taxation (charges)/credit | *3* | **(3,999)** | 8,544 |
| Profit for the year attributable to equity holders of the Company | | **40,632** | 47,076 |
| EBITDA | *4* | **57,205** | 45,216 |
| | | ***HK$*** | *HK$* |
| Earnings per share | *5* | | |
| Basic | | **0.09** | 0.10 |
| Diluted | | **N/A** | N/A |

## Consolidated Balance Sheet

| | Notes | As at 31 December 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **17,117** | 12,144 |
| Intangible assets | 7 | **51,659** | — |
| Deferred tax assets | | **10,866** | 10,881 |
| | | **79,642** | 23,025 |
| **Current assets** | | | |
| Trade and other receivables | 8 | **86,630** | 67,140 |
| Pledged deposits | | **1,547** | 2,476 |
| Bank balances and cash | | **100,362** | 58,742 |
| | | **188,539** | 128,358 |
| **Current liabilities** | | | |
| Trade and other payables | 9 | **99,686** | 59,502 |
| Current portion of bank borrowings | | **9,188** | — |
| Current portion of obligations under finance leases | | **198** | 191 |
| Provision for taxation | | **3,996** | — |
| | | **113,068** | 59,693 |
| **Net current assets** | | **75,471** | 68,665 |
| **Total assets less current liabilities** | | **155,113** | 91,690 |
| **Non-current liabilities** | | | |
| Bank borrowings | | **22,577** | — |
| Obligations under finance leases | | **419** | 618 |
| **NET ASSETS** | | **132,117** | 91,072 |
| **Capital and reserves** | | | |
| Share capital | | **4,709** | 4,709 |
| Reserves | | **127,408** | 86,363 |
| **TOTAL EQUITY** | | **132,117** | 91,072 |

*Notes:*

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

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and applicable requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The accounting policies and basis of preparation adopted in these financial statements are consistent with those adopted in the Company's 2005 Annual Report.

The Group has not early adopted the new/revised standards and interpretations issued by HKICPA that are not yet effective for the current year. The Group anticipates that the adoption of these new/revised HKFRS in 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 year are as set out below.

*(a) by geographical segments:*

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **2006** | | | 2005 | | |
| | **North America** *HK$'000* | **Asia Pacific** *HK$'000* | **Consolidated** *HK$'000* | North America *HK$'000* | Asia Pacific *HK$'000* | Consolidated *HK$'000* |
| **Turnover** | | | | | | |
| External sales | **598,989** | **103,821** | **702,810** | 308,702 | 113,888 | 422,590 |
| **Results** | | | | | | |
| Profit from operations | **29,925** | **27,873** | **57,798** | 21,720 | 21,027 | 42,747 |
| Finance costs | | | **(2,859)** | | | (34) |
| Other operating income and expenses | | | **(10,308)** | | | (4,181) |
| Profit before taxation | | | **44,631** | | | 38,532 |
| Taxation (charges)/credit | | | **(3,999)** | | | 8,544 |
| Profit for the year | | | **40,632** | | | 47,076 |

*(b) by business segments:*

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **2006** | | | 2005 | | |
| | **Telecom–munication services** *HK$'000* | **Other** *HK$'000* | **Consolidated** *HK$'000* | Telecom–munication services *HK$'000* | Other *HK$'000* | Consolidated *HK$'000* |
| **Turnover** | | | | | | |
| External sales | **696,494** | **6,316** | **702,810** | 414,072 | 8,518 | 422,590 |
| **Results** | | | | | | |
| Profit from operations | **57,792** | **6** | **57,798** | 42,503 | 244 | 42,747 |
| Finance costs | | | **(2,859)** | | | (34) |
| Other operating income and expenses | | | **(10,308)** | | | (4,181) |
| Profit before taxation | | | **44,631** | | | 38,532 |
| Taxation (charges)/credit | | | **(3,999)** | | | 8,544 |
| Profit for the year | | | **40,632** | | | 47,076 |

**3. Taxation (charges)/credit**

| | Year ended 31 December | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| **Current tax** | | |
| Hong Kong profits tax | **—** | — |
| Overseas income taxes | **(3,964)** | — |
| | **(3,964)** | — |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(35)** | 8,544 |
| | **(3,999)** | 8,544 |

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

**4. EBITDA**

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

**5. Earnings per share**

The calculation of basic earnings per share for the year ended 31 December 2006 was based on the consolidated profit attributable to equity holders of the Company of HK$40,632,000 (2005: HK$47,076,000) and on the 470,894,200 (2005: 470,894,200) shares in issue during the year.

The diluted earnings per share for the years ended 31 December 2006 and 2005 have not been presented as the exercise prices of the share options were higher than the average market price of the shares.

**6. Profit before taxation**

This was arrived at after charging/(crediting):

| | Year ended 31 December | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| Finance costs | | |
| Interest on bank loan and other borrowings | **2,832** | — |
| Finance charges on obligations under finance leases | **27** | 34 |
| Amortisation of intangible assets included in other operating expenses | **4,411** | — |
| Depreciation of property, plant and equipment | **5,304** | 4,756 |
| Gain on disposal of an available-for-sale investment included in other income | **—** | (5,200) |
| Impairment loss on an available-for-sale investment | **—** | 1,894 |

## 7. Intangible assets

| | As at 31 December 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Development costs | **3,137** | — |
| Customer contracts | **52,933** | — |
| | **56,070** | — |
| Less: amortisation | **(4,411)** | — |
| | **51,659** | — |

Development costs represent costs incurred in 2006 for the development of IP-based communication products and services, which services were launched in December 2006. Amortisation of the development costs will commence in 2007.

The customer contracts represent intangible assets purchased as a result of 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 are capitalised and amortised under the straight-line method over 5 years.

## 8. Trade and other receivables

| | As at 31 December 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| **Trade receivables** | **76,119** | 54,364 |
| **Other receivables** | | |
| Deposits, prepayments and other debtors | **10,511** | 12,776 |
| | **86,630** | 67,140 |

The Group's credit terms on sales mainly range from 30 days 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 31 December 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Current | **68,042** | 46,109 |
| 1 to 3 months | **7,858** | 8,020 |
| More than 3 months but less than 12 months | **219** | 235 |
| | **76,119** | 54,364 |

### 9. Trade and other payables

| | As at 31 December 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| **Trade payables** | **44,924** | 25,930 |
| **Other payables** | | |
| Accrued charges and other creditors | **54,762** | 33,572 |
| | **99,686** | 59,502 |

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

| | As at 31 December 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Current | **26,733** | 16,756 |
| 1 to 3 months | **17,992** | 9,011 |
| More than 3 months but less than 12 months | **199** | 163 |
| | **44,924** | 25,930 |

### 10. Comparative figures

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

## FINAL DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31 December 2006 (2005: Nil).

## BUSINESS REVIEW

During the year under review, the Group recorded a significant increase in turnover while continuing to maintain profitable operating results. The acquisition of assets in connection with the provision of long distance telecommunication services in the United States (the "WRLD Alliance transaction"), as approved by shareholders of the Company in March 2006, was successfully completed and smoothly integrated with the existing ZONE US operations. Such assets have proven their value as they helped ZONE US in contributing significantly to the growth in turnover and EBITDA of the Group.

Turnover of the Group was HK$702.8 million, up 66.3% from HK$422.6 million for the previous year. This increase was contributed mainly by the increase in revenue of ZONE operations in the United States. Profit from operations and profit before taxation of the Group for the year recorded rises of 23.1% and 15.8%, respectively, when compared to the previous year. The Group recorded net profit of HK$40.6 million compared to HK$47.1 million for the prior year, however, if the deferred tax effect is excluded, the 2006 net profit would be 5.5% higher than 2005. EBITDA of HK$57.2 million was up 26.5% from HK$45.2 million for the prior year.

The Group's balance sheet remains healthy with total net assets of HK$132.1 million, representing an increase of 45.1% over the prior year, with bank balances and cash in 2006 exceeding HK$100 million.

ZONE operations in the United States ("ZONE US") recorded another year of robust growth almost doubling its turnover from HK$308.7 million for the previous year to HK$599.0 million. This increased turnover was mainly due to the growth in the carrier business of ZONE US servicing more than one-third of all independent local exchange carriers ("ILECs") located throughout the United States, including those customers acquired under the WRLD Alliance transaction. Profit from operations for the year totalled HK$29.9 million, representing an increase of 37.8% compared to HK$21.7 million for the prior year. In addition to achievements in revenue growth, ZONE US has also been actively implementing various strategies to improve operating efficiencies and increase gross margins. Such improvements and increases are being achieved through, among others, the integration of the ZONE US existing operation base in the North East with the facilities of WRLD Alliance headquartered in Utah, and also the benefits of greater economies of scale as a result of more competitive pricing from carrier partners. In the coming year, ZONE US will focus on increasing its market share for its core businesses and continuing to improve margins and productivity while, at the same time, seeking opportunities to introduce new and complementary products and services.

Turnover from ZONE Hong Kong and ZONE Singapore (collectively, "ZONE Asia") for 2006 amounted to HK$97.5 million compared to HK$105.4 million for 2005. Profit from ZONE Asia's operations for the year under review were HK$27.9 million, representing an increase of 34.1% compared to HK$20.8 million for the previous year. ZONE Asia was able to achieve higher operating profits, despite a slight decrease in turnover, by further increasing its gross margins and continuing its efforts to improve operating productivity.

Following the award of the Services-Based Operator ("SBO") Licence from the Office of the Telecommunications Authority ("OFTA") of Hong Kong in March 2006 and subsequent resolution of the issues on interconnection with the fixed telecommunication network services ("FTNS") providers, ZONE Hong Kong completed its interconnection arrangements and became the first licensee to provide Voice-over-Internet Protocol ("VoIP") services with local Hong Kong telephone numbers allocated by OFTA under the terms of the SBO licences. This service is not only available to customers based in Hong Kong, but is also available to persons in any part of the world that obtain broadband access to ZONE's network, thus extending ZONE Hong Kong's reach to a new overseas potential customer base.

In addition, ZONE Hong Kong continues to be the main resource base for penetrating into the China market. Towards the end of 2005 and in 2006, ZONE Hong Kong deployed technical and business teams to provide management expertise and support to its partners' operations in China.

ZONE Singapore continued on its growth path and achieved notable results in 2006. Creative and targeted marketing initiatives have led to an increased acquisition rate for new members, a more stable user base and a higher average rate per user ("ARPU"), all of which contributed to the higher revenue level. Effective cost management and negotiations with carriers have contributed to better margins and record-high operating results. While ZONE Singapore keeps reinforcing its position in its core services, it has also deployed, in conjunction with ZONE Hong Kong, new IP-based technologies to service its customers with offices worldwide. Looking ahead to 2007, ZONE Singapore plans to form alliances to further develop expansion into the region while expanding its business in Singapore through innovative product packaging and value-added services to differentiate it from competitors.

In December 2006, ZONE Asia officially launched its latest global VoIP service "ZoiPPE" (www.zoippe.com) at the ITU Telecom World 2006. Since the successful launch, ZoiPPE has unveiled a number of partnership and marketing programmes to enhance brand recognition and grow its user base. As an example, in conjunction with AsiaXPAT, ZONE Asia is promoting the co-branded "*AsiaXPAT & ZoiPPE*" service to the expatriate community in Asia. Also, its recent "Free Calls to China" promotional offer during the Lunar New Year festive season has encouraged many users in the Chinese community around the world to use its services.

In February 2007, the Group successfully completed a placement of 52 million shares of the Company, generating net proceeds of approximately HK$44.8 million. At the same time, the Group raised additional capital of US$2.5 million (HK$19.5 million) from an institutional investor for development of the ZoiPPE business.

**Looking ahead** to 2007, the Group is excited about the prospects of expanding its ZONE businesses within and beyond its current operations in the United States, Hong Kong and Singapore. ZONE will continue to organically grow its market share in these countries while seeking acquisition targets, such as the WRLD Alliance transaction, that once integrated with the current operations can bring synergistic value to the Group. The Group will also take business development initiatives to expand the ZONE business model to other countries.

The Group has obtained additional funds for growth and development from those transactions in February. It considers that establishing a business presence and securing reliable local partners in the larger markets, including China and India, will be a priority for 2007, and during the year ZoiPPE will step up its efforts to enhance its technology robustness and scalability to improve user experience and to introduce new multimedia features and functionalities, while at the same time intensifying its promotional drive globally.

## FINANCIAL REVIEW

*Results*

For the year ended 31 December 2006, the Group recorded consolidated turnover of HK$702.8 million representing an increase of HK$280.2 million, or 66.3%, as compared to 2005.

Turnover from ZONE US increased by 94.0% from HK$308.7 million in 2005 to HK$599.0 million in 2006, while ZONE Asia, comprising the Group's telecommunication business in Hong Kong and Singapore, recorded a 7.5% decrease in turnover from HK$105.4 million for 2005 to HK$97.5 million for 2006.

The Group's gross profit increased by 24.6% from HK$154.9 million in 2005 to HK$193.1 million in 2006.

The operating profit for the year was HK$47.5 million compared to HK$38.6 million for the previous year.

The consolidated net profit for the year was HK$40.6 million compared to a net profit of HK$47.1 million, which included a deferred tax credit of HK$8.5 million, for 2005.

EBITDA for the Group increased by 26.5%, or HK$12.0 million, from HK$45.2 million for 2005 to HK$57.2 million in 2006.

*Assets*

As at 31 December 2006, the net assets of the Group amounted to HK$132.1 million as compared to HK$91.1 million in 2005.

*Liquidity and Financing*

Cash and bank balances (excluding pledged deposits) were HK$100.4 million as at 31 December 2006 (2005: HK$58.7 million). The Group had pledged deposits amounting to HK$1.5 million as at 31 December 2006 (2005: HK$2.5 million) to banks for guarantees made by them to certain telecommunication carriers for payments due by the Group.

In 2006, a bank loan of HK$46.8 million was advanced to a subsidiary of the Company for the purpose of the WRLD Alliance transaction, of which HK$15.0 million was repaid during 2006, and the balance thereof as at 31 December 2006 amounted to HK$31.8 million (2005: Nil). This bank loan, comprising the Group's entire bank borrowings, was made 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 31 December 2006, the Group's liabilities under equipment lease financing arrangements amounted to HK$0.6 million (2005: HK$0.8 million).

The Group's gearing ratio, measured on the basis of total borrowings as a percentage of net assets was 24.5% (2005: 0.9%). Such increase principally arose as a result of the bank borrowings referred to above.

*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 31 December 2006, there were no material contingent liabilities and commitments.

*Post Balance Sheet Events*

On 16 February 2007, the Group entered into a placing and subscription agreement whereby 52 million shares of the Company were placed and subscribed for at the price of HK$0.90 per share, subject to adjustment for commissions, costs and expenses incurred in relation thereto. Details of the placing and subscription agreement were disclosed in the announcement of the Company dated 16 February 2007.

On 16 February 2007, Cyberman Limited (a wholly-owned subsidiary of the Company), Cannizaro Hong Kong Limited (acting as the investment manager of its fund) and ZONE Resources Limited ("ZRL") entered into a subscription and shareholders agreement whereby Cannizaro subscribed or procured subscriptions for 500 shares of ZRL, representing 5% of the issued share capital of ZRL, for a consideration of US$2.5 million. ZRL remains to be a 95% subsidiary of the Company. Details of the subscription and shareholders agreement were disclosed in the announcement of the Company aforesaid.

The transactions contemplated by the said placing and subscription agreement and the subscription and shareholders agreement were completed in February 2007.

## EMPLOYEE REMUNERATION POLICIES

As at 31 December 2006, the Group had 145 employees (2005: 136 employees) in Hong Kong and overseas. The Group's total staff costs amounted to HK$71.3 million (2005: HK$64.9 million). Pursuant to the share option schemes adopted by the Company, share options may be granted to, among others, eligible employees of the Group to subscribe for shares in the Company under the terms and conditions stipulated therein. Altogether, 147,500 share options remained outstanding as at 31 December 2006.

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 the Group's 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. 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 year ended 31 December 2006, acting in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

## 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 year ended 31 December 2006.

## 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 systems and financial reporting matters, including a review of the audited consolidated financial statements of the Group for the year ended 31 December 2006.

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

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

## PUBLICATION OF FURTHER INFORMATION

The 2006 annual report of the Company containing all information required by Appendix 16 to the Listing Rules will be published on both the websites of The Stock Exchange of Hong Kong Limited and the Company in due course.

## APPRECIATION

The Board would like to thank all 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, 23 March 2007

*As at the date of this announcement, the Board of the Company comprised of Executive Directors, Richard John Siemens, Kuldeep Saran 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.*

Please also refer to the published version of this announcement in The Standard.