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 2005

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 2005, together with comparative figures for 2004, as follows:

Condensed Consolidated Income Statement

		Year ended 31 December	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
Turnover	*2*	**422,590**	402,654
Cost of sales		**(267,649)**	(254,821)
Gross profit		**154,941**	147,833
Interest income		**589**	339
Other income	*6*	**8,313**	1,519
		163,843	149,691
Distribution costs		**(22,279)**	(25,117)
Business promotion and marketing expenses		**(3,068)**	(6,029)
Operating and administrative expenses		**(86,693)**	(95,007)
Other operating expenses		**(13,237)**	(55,932)
Profit/(Loss) from operations	*6*	**38,566**	(32,394)
Finance costs		**(34)**	(38)
Restructuring costs		**—**	(100,544)
Profit/(Loss) before taxation		**38,532**	(132,976)
Taxation credit	*3*	**8,544**	1,369
Net profit/(loss) for the year		**47,076**	(131,607)

	Notes		
Attributable to:			
Equity holders of the Company		**47,076**	(131,607)
		HK$	*HK$*
Earnings/(Loss) per share	*4*		
Basic		**0.10**	(0.28)
Diluted		**N/A**	N/A
		HK$'000	*HK$'000*
EBITDA	*5*	**45,189**	11,827

Condensed Consolidated Balance Sheet

		As at 31 December	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
Non-current assets			
Property, plant and equipment		**12,144**	7,916
Available-for-sale investments		**—**	1,894
Deferred tax assets		**10,881**	2,369
		23,025	12,179
Current assets			
Trade and other receivables	*7*	**67,140**	45,569
Pledged deposits		**2,476**	2,817
Bank balances and cash		**58,742**	44,377
		128,358	92,763
Current liabilities			
Trade and other payables	*8*	**59,502**	60,326
Current portion of obligations under finance leases		**191**	184
		59,693	60,510
Net current assets		**68,665**	32,253
Total assets less current liabilities		**91,690**	44,432
Non-current liabilities			
Obligations under finance leases		**618**	809
NET ASSETS		**91,072**	43,623

Capital and reserves		
Issued capital	**4,709**	4,709
Reserves	**86,363**	38,914
TOTAL EQUITY	**91,072**	43,623

Notes:

1. Basis of preparation and accounting policies

The condensed consolidated financial statements are prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") which, collectively, includes all applicable individual Hong Kong Financial Reporting Standards ("FRSs"), Hong Kong Accounting Standards ("HKASs") 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"). They have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2004 except as described below.

In the current year, the Group has applied, for the first time, a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005. The adoption of these new HKFRSs has resulted in changes to the Group's accounting policies that have an effect on how the results for the current or prior accounting periods are prepared and presented as set out below.

Related Party Disclosures

Under HKAS 24 "Related Party Disclosures", the definition of related parties has been expanded and, therefore, affects the Group's related party disclosures.

Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement".

Prior to 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment presented in Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities were classified as "investment securities" or "other investments" as appropriate. Investment securities were carried at cost less impairment losses, if any, while other investments were measured at fair values, with realised/unrealised gains or losses included in the income statement. From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. In so doing, the Group has re-classified its "investment securities" as "available-for-sale investments". The change in accounting policy has no significant effect on the previously reported results and financial position of the Group. HKAS 32 has been retrospectively applied and comparative figures have been restated accordingly.

Share-based Payment

FRS 2 "Share-based Payment" requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to given numbers of shares or rights over shares ("cash-settled transactions"). The principal impact of FRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company, determined at the date of grant of the share options over the relevant vesting periods, to the income statement. Prior to the application of FRS 2, the Group did not recognise the financial effect of share options until they were exercised. From 1 January 2005 onwards, the Group has applied FRS 2 to share options granted on or after 7 November 2002 and not yet vested on 1 January 2005. In relation to share options granted before 7 November 2002, the Group has not applied FRS 2 in accordance with the relevant transitional provisions. As at 1 January and 31 December 2005, all share options of the Company had been granted before 7 November 2002 and, therefore, are not subject to the requirements of FRS 2.

2. Turnover and segmental information

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

(a) by business segments:

	Year ended 31 December					
	2005			2004		
	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	**414,072**	**8,518**	**422,590**	402,155	499	402,654
Results						
Profit/(Loss) from operations	**42,503**	**244**	**42,747**	(19,039)	(271)	(19,310)
Restructuring costs	**—**	**—**	**—**	(100,544)	—	(100,544)
	42,503	**244**	**42,747**	(119,583)	(271)	(119,854)
Finance costs			**(34)**			(38)
Other operating income and expenses			**(4,181)**			(13,084)
Profit/(Loss) before taxation			**38,532**			(132,976)
Taxation credit			**8,544**			1,369
Net profit/(loss) for the year			**47,076**			(131,607)

(b) by geographical segments:

	Year ended 31 December					
	2005			2004		
	North America	**Asia Pacific**	**Consolidated**	North America	Asia Pacific	Consolidated
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Turnover						
External sales	**308,702**	**113,888**	**422,590**	273,678	128,976	402,654
Results						
Profit/(Loss) from operations	**21,720**	**21,027**	**42,747**	(25,782)	6,472	(19,310)
Restructuring costs	**—**	**—**	**—**	(100,544)	—	(100,544)
	21,720	**21,027**	**42,747**	(126,326)	6,472	(119,854)
Finance costs			**(34)**			(38)
Other operating income and expenses			**(4,181)**			(13,084)
Profit/(Loss) before taxation			**38,532**			(132,976)
Taxation credit			**8,544**			1,369
Net profit/(loss) for the year			**47,076**			(131,607)

3. Taxation credit

Hong Kong Profits Tax and overseas taxation have not been provided for as the Group's estimated assessable profits for the year are wholly absorbed by available tax losses carried forward from previous years (2004: Nil).

The amount of taxation credited to the consolidated income statement represents:

	Year ended 31 December	
	2005	2004
	HK$'000	*HK$'000*
Deferred taxation relating to the origination of temporary differences	**8,544**	1,369

4. Earnings/(Loss) per share

The calculation of basic earnings per share for the year ended 31 December 2005 was based on the consolidated profit attributable to equity holders of the Company of HK$47,076,000 (2004: loss of HK$131,607,000) and on the 470,894,200 (2004: 470,894,200) shares in issue during the year.

The diluted earnings/(loss) per share for the years ended 31 December 2005 and 2004 have not been presented as the exercise prices of the share options were higher than the average market price.

5. EBITDA

EBITDA represents earnings before interest expenses, taxation, depreciation, amortisation and impairments, and disposal gains/losses on property, plant and equipment.

6. Profit/(Loss) from operations

This was arrived at after crediting/(charging):

	Year ended 31 December	
	2005	2004
	HK$'000	*HK$'000*
Gain/(Loss) on disposal of an available-for-sale investment included in other income/other operating expenses	**5,200**	(232)
Impairment loss on an available-for-sale investment	**(1,894)**	—
Depreciation of property, plant and equipment	**(4,756)**	(48,925)

7. Trade and other receivables

	As at 31 December	
	2005	2004
	HK$'000	*HK$'000*
Trade receivables	**54,364**	39,524
Other receivables		
Deposits, prepayments and other debtors	**12,776**	6,045
	67,140	45,569

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	
	2005	2004
	HK$'000	*HK$'000*
Current	**46,109**	33,069
1 to 3 months	**8,020**	6,103
More than 3 months but less than 12 months	**235**	352
	54,364	39,524

8 Trade and other payables

	As at 31 December	
	2005	2004
	HK$'000	*HK$'000*
Trade payables	**25,930**	26,955
Other payables		
Accrued charges and other creditors	**33,572**	33,371
	59,502	60,326

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

	As at 31 December	
	2005	2004
	HK$'000	*HK$'000*
Current	**16,756**	19,900
1 to 3 months	**9,011**	3,582
More than 3 months but less than 12 months	**163**	3,473
	25,930	26,955

9. 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 any dividends for the year ended 31 December 2005 (2004: Nil).

BUSINESS REVIEW

During the year under review, the Group returned to profitability by recording a net profit of HK$47.1 million. The Group continues to strive for steady revenue growth while consistently improving operational efficiencies. Its ZONE telecommunications companies ("ZONE") in the United States and in Asia further expanded their existing businesses with the introduction of new products and services and enlarging their geographical reach beyond historic territories.

ZONE's operations in the United States ("ZONE US") recorded its first annual operating profit. Net profit from operations for 2005 was HK$21.7 million compared to a net loss from operations of HK$25.8 million in 2004. As a profitable company with a strong balance sheet, ZONE US has established a solid financial foundation for future revenue growth and market expansion. In the coming year, ZONE US is expected to maintain its profitability while focusing on revenue growth in three key segments, namely, consumer, corporate and wholesale.

ZONE US will continue to promote its consumer Voice over Internet Protocol ("VoIP") products and services through channel partners and resellers. As for the corporate market, ZONE US's experienced sales teams, located in major US cities, are expected to increase market share in this sector. The recent ZONE US's acquisition of certain telecommunication services assets as approved by the Company's shareholders on 3 March 2006 (the "Acquisition") will not only secure the Acquisition vendors' customer contracts, but will also bring the necessary expertise and resources required to further expand into the wholesale market targeting independent local exchange carriers (ILECs) throughout the United States.

At the end of 2005, ZONE Hong Kong and ZONE Singapore (collectively, "ZONE Asia") extended their presence beyond their respective territories by acquiring certain state-of-the-art VoIP-related technology that is being developed by a technology partner of ZONE Hong Kong based in Shenzhen, China. The technology platform is currently used by ZONE Hong Kong for its VoIP services and is also used by a number of channels and resellers in different parts of China for VoIP-related services. This R&D team is currently developing a number of VoIP products, including peer-to-peer (P2P) "softphone" which ZONE Hong Kong plans to launch in the second half of 2006.

While the international direct dialling ("IDD") business, despite ongoing competitive pressure from incumbent telecom operators, generates revenue and profitability at our anticipated levels, and remains the key revenue driver for ZONE Hong Kong, the Group foresees larger revenue contributions in the coming years from the various newly introduced services, including VoIP-related products and services. With VoIP technology, ZONE Hong Kong is able to capitalise on competitive IDD rates and provide IDD services to both wholesale and retail customers outside Hong Kong.

In January 2006, Hong Kong's Office of the Telecommunications Authority ("OFTA") announced the introduction of a Services-Based Operator ("SBO") Licence to regulate the provision of VoIP services in the city. This is seen as a positive step towards defining the regulatory framework governing Hong Kong service providers for the provision of VoIP services. ZONE Hong Kong submitted its application for an SBO Licence and is expected to be awarded this licence in the near future. ZONE Hong Kong plans to be ready to launch its VoIP services on a commercial basis once the licence is awarded and negotiations with the preferred Fixed Telecommunications Network Services (FTNS) provider, relating to hosting and interconnection charges, are completed.

ZONE Singapore recorded another year of steady revenue growth and an increase in net profit during 2005. Concerted sales and marketing efforts helped to raise revenues and at the same time better cost management and effective negotiations with carriers have resulted in improved margins. While it remains focused on serving the corporate segment of the market, ZONE Singapore has also introduced several innovative marketing promotions including "No Talk, No Pay" targeting the consumer market, and new service offerings such as "GlobalDial" that have attracted customers from neighbouring countries around Singapore. ZONE Singapore has built strong brand awareness and acceptance in the Singaporean community as a company that not only provides quality and value but also takes pride in its ability to provide products and services tailored to each customer's specific needs.

Looking ahead, the Group will continue to stay focused on increasing organic revenue growth, improving efficiencies and maintaining profitability for the coming year. While growth is expected from the existing core businesses and through the introduction of other new products and services, the Group will also pursue additional potential acquisition targets, both in the United States and Asia, which can make material contributions to the Group's turnover and profitability, and increase shareholder value.

FINANCIAL REVIEW

Results

During the year under review, the Group continued to record increases in revenue growth. The consolidated turnover increased by 5.0% to HK$422.6 million compared to HK$402.7 million for the prior year.

Turnover from ZONE US increased by 12.8% from HK$273.7 million in 2004 to HK$308.7 million in 2005 which accounted for 73.1% of total Group turnover in 2005 compared to 68.0% for the previous year.

ZONE Asia, comprising the Group's telecommunications business in Hong Kong and Singapore, collectively recorded an 18.0% decrease in turnover from HK$128.5 million for the previous year to HK$105.4 million for 2005, but managed to achieve an operating profit for the year of HK$20.8 million.

The Group's gross profit increased by 4.8% from HK$147.8 million in 2004 to HK$154.9 million in 2005.

EBITDA for the Group recorded a substantial increase of 282.1% to HK$45.2 million for 2005 compared to HK$11.8 million for 2004.

The operating profit for the year was HK$38.6 million compared to a loss of HK$32.4 million for the previous year.

The consolidated net profit attributable to shareholders was HK$47.1 million compared to a net loss of HK$131.6 million for 2004.

Assets

As at 31 December 2005, the net assets of the Group amounted to HK$91.1 million (2004: HK$43.6 million).

Liquidity and Financing

The Group relied on its internal resources to fund operations during the year.

Cash and bank balances (excluding pledged deposits) were HK$58.7 million as at 31 December 2005 (2004: HK$44.4 million). The Group had pledged deposits amounting to HK$2.5 million as at 31 December 2005 (2004: HK$2.8 million) and had no bank borrowings during the year.

As at 31 December 2005, the Group's liabilities under equipment lease financing further decreased to HK$0.8 million (2004: HK$1.0 million).

The Group's gearing ratio, measured on the basis of total borrowings as a percentage of net assets was 0.9% (2004: 2.3%).

Foreign Exchange Exposure

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 as long as the Hong Kong-United States dollar exchange rate remains pegged. As the cash contribution from the Singapore operations continues to grow, the Group will closely monitor the Singapore-United States dollar exchange rate and, whenever appropriate, will take any necessary action to reduce such exchange risks.

Contingent Liabilities and Commitments

As at 31 December 2005, there were no material contingent liabilities and commitments.

EMPLOYEE REMUNERATION POLICIES

As at 31 December 2005, the Group had 136 employees (2004: 144 employees) in Hong Kong and overseas. The Group's total staff costs amounted to HK$64.9 million (2004: HK$72.5 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 remain outstanding as at 31 December 2005.

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 2005, 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 2005.

AUDIT COMMITTEE

The Audit Committee has reviewed with 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 audited consolidated financial statements of the Company for the year ended 31 December 2005.

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 2005 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 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, 24 March 2006

As at the date of this announcement, the Board of the Company comprises 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.