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 2006

INTERIM RESULTS

The board of directors (the "Board") of e-Kong Group Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2006, together with comparative figures for the corresponding period in 2005. The results were unaudited but have been reviewed by the Company's Audit Committee and the Company's auditors.

Condensed Consolidated Income Statement

		Six months ended 30 June	
		2006	2005
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Turnover	*2*	**330,709**	192,354
Cost of sales		**(234,882)**	(120,918)
Gross profit		**95,827**	71,436
Interest income		**1,220**	209
Other income		**8**	35
		97,055	71,680
Selling and distribution expenses		**(26,620)**	(19,077)
Business promotion and marketing expenses		**(2,760)**	(1,297)
Operating and administrative expenses		**(39,411)**	(37,723)
Depreciation and amortisation		**(2,688)**	(2,391)

Profit from operations		**25,576**	11,192
Finance costs		**(1,379)**	(18)
Profit before taxation		**24,197**	11,174
Taxation	*3*	**(1,423)**	—
Profit for the period		**22,774**	11,174
Attributable to:			
Equity holders of the Company		**22,774**	11,174
		HK cents	*HK cents*
Earnings per share	*4*		
Basic		**4.8**	2.4
Diluted		**N/A**	N/A
		HK$'000	*HK$'000*
EBITDA	*5*	**28,264**	13,583

Condensed Consolidated Balance Sheet

		As at 30 June 2006 (Unaudited) *HK$'000*	As at 31 December 2005 (Audited) *HK$'000*
Non-current assets			
Property, plant and equipment		**13,308**	12,144
Deferred tax assets		**10,612**	10,881
		23,920	23,025
Current assets			
Trade and other receivables	*6*	**124,633**	67,140
Pledged deposits		**2,024**	2,476
Bank balances and cash		**78,238**	58,742
		204,895	128,358
Current liabilities			
Trade and other payables	*7*	**68,310**	59,502
Current portion of bank borrowings		**8,244**	—
Current portion of obligations under finance leases		**194**	191
Provision for taxation		**1,138**	—
		77,886	59,693
Net current assets		**127,009**	68,665
Total assets less current liabilities		**150,929**	91,690
Non-current liabilities			
Bank borrowings		**36,584**	—
Obligations under finance leases		**519**	618
NET ASSETS		**113,826**	91,072
Capital and reserves			
Issued capital		**4,709**	4,709
Reserves		**109,117**	86,363
TOTAL EQUITY		**113,826**	91,072

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 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 basis of preparation adopted in these interim financial statements are consistent with those adopted in the Company's 2005 Annual Report.

2. Turnover and segmental information

The analysis of the Group's turnover and results by business and geographical segments during the period is as follows:

(a) by business segments:

	Six months ended 30 June					
	2006			2005		
	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	**325,772**	**4,937**	**330,709**	192,083	271	192,354
Results						
Profit from operations	**28,863**	**20**	**28,883**	19,587	26	19,613
Finance costs			**(1,379)**			(18)
Other operating income and expenses			**(3,307)**			(8,421)
Profit before taxation			**24,197**			11,174
Taxation			**(1,423)**			—
Profit for the period			**22,774**			11,174

(b) by geographical segments:

	Six months ended 30 June					
	2006			2005		
	North America (Unaudited) ***HK$'000***	**Asia Pacific (Unaudited)** ***HK$'000***	**Consolidated (Unaudited)** ***HK$'000***	North America (Unaudited) *HK$'000*	Asia Pacific (Unaudited) *HK$'000*	Consolidated (Unaudited) *HK$'000*
Turnover						
External sales	**276,158**	**54,551**	**330,709**	138,157	54,197	192,354
Results						
Profit from operations	**15,477**	**13,406**	**28,883**	9,963	9,650	19,613
Finance costs			**(1,379)**			(18)
Other operating income and expenses			**(3,307)**			(8,421)
Profit before taxation			**24,197**			11,174
Taxation			**(1,423)**			—
Profit for the period			**22,774**			11,174

3. Taxation

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
The charge comprises:		
Profits tax		
Hong Kong	**—**	—
Overseas	**1,138**	—
	1,138	—
Deferred tax		
Reversal of temporary difference	**285**	—
	1,423	—

Overseas taxation represents profits tax provided by a subsidiary, calculated at the tax rate prevailing in the country in which the subsidiary operates.

4. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2006 was based on the consolidated profit attributable to equity holders of the Company of HK$22,774,000 (30 June 2005: HK$11,174,000) and on the 470,894,200 (30 June 2005: 470,894,200) shares in issue during the period.

The diluted earnings per share for the six months ended 30 June 2006 and 2005 have not been presented as the exercise prices of the share options were higher than the average market price per share.

5. EBITDA

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

6. Trade and other receivables

	As at 30 June 2006 (Unaudited) *HK$'000*	As at 31 December 2005 (Audited) *HK$'000*
Trade receivables	**59,785**	54,364
Other receivables		
Deposits, prepayments and other debtors	**14,148**	12,776
Deposit under escrow	**50,700**	—
	124,633	67,140

Deposit under escrow represents the amount deposited with an escrow agent for the acquisition of assets in connection with the provision of long distance telecommunication services in the United States, as approved by shareholders of the Company in March 2006.

The credit period granted to customers mainly ranges 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 30 June 2006 (Unaudited) *HK$'000*	As at 31 December 2005 (Audited) *HK$'000*
Current	**48,766**	46,109
1 to 3 months	**9,073**	8,020
More than 3 months but less than 12 months	**1,946**	235
	59,785	54,364

7. Trade and other payables

	As at 30 June 2006 (Unaudited) *HK$'000*	As at 31 December 2005 (Audited) *HK$'000*
Trade payables	**32,393**	25,930
Other payables		
Accrued charges and other creditors	**35,917**	33,572
	68,310	59,502

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

	As at 30 June 2006 (Unaudited) *HK$'000*	As at 31 December 2005 (Audited) *HK$'000*
Current	**30,937**	16,756
1 to 3 months	**1,289**	9,011
More than 3 months but less than 12 months	**167**	163
	32,393	25,930

8. Comparative figures

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

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2006 (30 June 2005: Nil).

BUSINESS REVIEW AND OUTLOOK

During the period under review, the Group continued the upward trend in its operating performance with robust growth in both turnover and profitability. Turnover of the Group reached HK$330.7 million, up 71.9% from the corresponding period last year. This increase was mainly driven by the considerably higher revenue contributions from ZONE telecommunication operations in the United States. Overall, the Group achieved a record net profit of HK$22.8 million, more than double the net profit for the corresponding period in 2005. The balance sheet of the Group remains healthy as the Group further expands its ZONE business.

Turnover from ZONE operations in the United States ("ZONE US") doubled to HK$276.2 million from HK$138.2 million for the corresponding period in 2005. Profit from operations for this period amounted to HK$15.5 million, representing an increase of 55.3% compared to HK$10.0 million for the previous corresponding period. Such increase was principally contributed from the newly-developed wholesale business of ZONE US. The organic growth of the ZONE US existing business further augmented the increase in its business performance. The acquisition of assets in connection with the provision of long distance telecommunication services in the United States ("WRLD Alliance Transaction"), as approved by shareholders of the Company in March 2006, was completed and integration of those assets with ZONE US existing operations is underway smoothly. The businesses relating to IP service offerings continue to advance, particularly in the IP-transport sector.

Turnover from ZONE Hong Kong and ZONE Singapore (collectively, "ZONE Asia") for this period totalled HK$49.6 million compared to HK$53.9 million for the corresponding period in 2005. Profit from ZONE Asia's operations for this period amounted to HK$13.4 million representing an increase of 39.1% compared to HK$9.6 million for the previous corresponding period. A higher operating profit was recorded despite the slight decrease in turnover mainly due to further improvements in gross margins and continuing efforts to enhance operating efficiencies.

ZONE Asia maintained its efforts to expand beyond its current geographical locations firstly by using ZONE's Voice-over Internet Protocol ("VoIP") technology platform to extend its services outside its current locations and secondly by setting up a presence in China through its technology partner in Shenzhen. ZONE Asia has already made available for public-testing its multi-functional peer-to-peer (P2P) "softphone" under the brandname "ZoiPPE" (*www.zoippe.com*) which empowers its users to communicate with other ZoiPPE users and other people around the world by way of instant messaging, voice calls and SMS. In China, ZONE Asia has started to provide business process and management expertise to assist its partner to expand its current operations.

In March 2006, ZONE Hong Kong was awarded a Services-Based Operator (SBO) Licence from the Office of the Telecommunications Authority ("OFTA") of Hong Kong, and it has already obtained an agreement-in-principle from a fixed network operator that it will host and interconnect the local Hong Kong telephone numbers allocated to ZONE Hong Kong. To date, however, ZONE has not been able to provide VoIP services equipped with local Hong Kong telephone numbers allocated by OFTA since some fixed network and mobile operators have not yet agreed to open up access to such blocks of telephone numbers. ZONE will continue to work with its hosting network provider and the regulator to resolve this issue.

In Singapore, ZONE's focus on providing quality, service, competitive pricing and value has paid off, resulting in steady revenue growth and further improvement in its operating results during the period under review. This strategy has contributed to ZONE's large base of loyal corporate customers ranging from multi-national corporations, local publicly-listed companies to government-linked institutions. With its strong branding and established customer base, ZONE plans to introduce new voice and data service offerings that will compliment its current services as well as generate higher per customer revenue.

Looking ahead to the next period, the Group will remain focused on expanding its ZONE telecommunications business. Key strategies to meet this objective will include (i) maintaining sustainable organic growth and pursuing acquisition targets that can help strengthen its market position in the United States and Asia, (ii) rolling-out its VoIP service offerings to the market, particularly in the Asian region and (iii) expanding its presence in China through working with its current partners as well as seeking new business opportunities.

FINANCIAL REVIEW

Results

During the period under review, the Group's turnover recorded significant growth and reached HK$330.7 million, representing an increase of 71.9% when compared to HK$192.4 million for the corresponding period in 2005.

The gross profit for this period increased by 34.1% to HK$95.8 million, compared to HK$71.4 million for the corresponding period in the previous year.

The Group's EBITDA for the period under review reached HK$28.3 million, representing a growth of 108.1% from HK$13.6 million for the same period last year.

The operating profit for the period amounted to HK$25.6 million, representing an increase of 128.5% when compared to HK$11.2 million for the first six months of 2005.

Consolidated net profit attributable to equity holders of the Company increased by 103.8% to HK$22.8 million when compared to HK$11.2 million for the previous corresponding period.

Interim dividend

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2006 (30 June 2005: Nil).

Assets

As at 30 June 2006, the net assets of the Group amounted to HK$113.8 million (31 December 2005: HK$91.1 million).

Liquidity and financing

Cash and bank balances (excluding pledged deposits) were HK$78.2 million as at 30 June 2006 (31 December 2005: HK$58.7 million). The Group had pledged deposits amounting to HK$2.0 million as at 30 June 2006 (31 December 2005: HK$2.5 million) to banks for guarantees made by the banks to certain telecommunication carriers for payments due by the Group.

As at 30 June 2006, the Group's bank borrowings amounted to HK$44.8 million (31 December 2005: Nil) which was represented by the bank loan advanced to a subsidiary of the Company for the purpose of the WRLD Alliance Transaction. The Group's bank borrowings were 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 30 June 2006, the Group's liabilities under equipment lease financing amounted to HK$0.7 million (31 December 2005: HK$0.8 million).

The Group's gearing ratio, measured on the basis of total borrowings as a percentage of net assets, was 40.0% (31 December 2005: 0.9%). Such increase was principally caused by 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 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. 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 30 June 2006, there were no material contingent liabilities and commitments.

EMPLOYEE REMUNERATION POLICIES

As at 30 June 2006, the Group had 144 employees (31 December 2005: 136 employees) in Hong Kong and overseas. The Group's total staff costs for the six months ended 30 June 2006 amounted to HK$23.6 million (30 June 2005: HK$23.6 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 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 six months ended 30 June 2006, acting in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

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 unaudited consolidated financial statements of the Company for the six months ended 30 June 2006.

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.

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, 14 September 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.