

2002

Interim Report 2002

e-KONG
Convergence through Services

e-KONG Group Limited

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 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

		Six months ended 30 June	
		2002	2001
		(Unaudited)	(Unaudited)
	Note	HK\$'000	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)

Condensed consolidated balance sheet

	Note	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	7	211,511	215,428
Interests in associates		4,838	4,838
Investment securities		4,552	31,434
		220,901	251,700
Current assets			
Other investments		24,339	47,737
Trade and other receivables	8	44,497	54,230
Pledged deposits		7,714	7,107
Cash and cash equivalents		33,120	111,349
		109,670	220,423
Current liabilities			
Trade and other payables	9	78,360	98,556
Current portion of obligations under finance leases		9,694	11,372
		88,054	109,928
Net current assets		21,616	110,495
Total assets less current liabilities		242,517	362,195
Long-term liabilities			
Obligations under finance leases		1,017	4,885
Minority interests		—	—
NET ASSETS		241,500	357,310
CAPITAL AND RESERVES			
Issued capital		103,665	103,665
Reserves		137,835	253,645
		241,500	357,310

Condensed consolidated statement of changes in equity

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Reserve on consolidation (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
As at 1 January 2001	40,879	1,122,734	(388)	6	(69,335)	(252,280)	841,616
Share issued at premium	62,786	70,638	-	-	-	-	133,424
Share issue expenses	-	(6,131)	-	-	-	-	(6,131)
Exchange difference on translation of foreign subsidiaries	-	-	381	-	-	-	381
Goodwill on consolidation written off	-	-	-	-	69,335	-	69,335
Net loss attributable to shareholders	-	-	-	-	-	(681,315)	(681,315)
As at 31 December 2001	103,665	1,187,241	(7)	6	-	(933,595)	357,310
Share issue expenses	-	(489)	-	-	-	-	(489)
Exchange difference on translation of foreign subsidiaries	-	-	7	-	-	-	7
Net loss attributable to shareholders	-	-	-	-	-	(115,328)	(115,328)
As at 30 June 2002	103,665	1,186,752	-	6	-	(1,048,923)	241,500

Condensed consolidated cash flow statement

	Six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(75,701)	(136,324)
Net cash (outflow)/inflow from returns on investments and servicing of finance	(522)	3,642
Tax Paid	-	-
Net cash outflow from investing activities	<u>(18,769)</u>	<u>(89,978)</u>
Net cash outflow before financing activities	(94,992)	(222,660)
Net cash (outflow)/inflow from financing activities	<u>(6,028)</u>	<u>7,501</u>
Decrease in cash and cash equivalents	(101,020)	(215,159)
Cash and cash equivalents as at 1 January	<u>166,193</u>	<u>412,988</u>
Cash and cash equivalents as at 30 June	<u><u>65,173</u></u>	<u><u>197,829</u></u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	33,120	85,291
Pledged deposits	7,714	5,000
Other investments	<u>24,339</u>	<u>107,538</u>
	<u><u>65,173</u></u>	<u><u>197,829</u></u>

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			Six months ended 30 June 2001		
	Telecom- services (Unaudited) HK\$’000	Others (Unaudited) HK\$’000	Consoli- dated (Unaudited) HK\$’000	Telecom- services (Unaudited) HK\$’000	Others (Unaudited) HK\$’000	Consoli- dated (Unaudited) HK\$’000
Turnover						
External sales	<u>131,187</u>	<u>9,405</u>	<u>140,592</u>	<u>105,078</u>	<u>21,845</u>	<u>126,923</u>
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)
	<u>(62,708)</u>	<u>(8,477)</u>	<u>(71,185)</u>	<u>(190,112)</u>	<u>(28,915)</u>	<u>(219,027)</u>
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			<u>(115,328)</u>			<u>(537,085)</u>

(b) by geographical segments:

	Six months ended 30 June 2002			Six months ended 30 June 2001		
	Asia Pacific (Unaudited) HK\$'000	North America (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000	Asia Pacific (Unaudited) HK\$'000	North America (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Turnover						
External sales	<u>64,249</u>	<u>76,343</u>	<u>140,592</u>	<u>71,420</u>	<u>55,503</u>	<u>126,923</u>
Result						
Loss from operations	(14,264)	(56,921)	(71,185)	(58,709)	(47,362)	(106,071)
Intangible assets and goodwill written off	<u>-</u>	<u>-</u>	<u>-</u>	<u>(77,263)</u>	<u>(35,693)</u>	<u>(112,956)</u>
	<u>(14,264)</u>	<u>(56,921)</u>	<u>(71,185)</u>	<u>(135,972)</u>	<u>(83,055)</u>	<u>(219,027)</u>
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			<u>-</u>			<u>(501)</u>
Net loss attributable to shareholders			<u>(115,328)</u>			<u>(537,085)</u>

3. Other revenue

	Six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Interest income	248	3,747
Others	<u>1,013</u>	<u>-</u>
	<u>1,261</u>	<u>3,747</u>

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. Acquisitions and disposals of property, plant and equipment

During the period, the Group acquired property, plant and equipment for an amount of approximately HK\$20.7 million (31 December 2001: HK\$159.2 million) and the disposal was approximately HK\$6.5 million (31 December 2001: HK\$5 million).

8. Trade and other receivables

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Trade receivables	33,909	37,943
Other receivables		
Deposits, prepayments and other debtors	10,588	16,287
	<u>44,497</u>	<u>54,230</u>

The Group's credit terms on credit 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 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Current	29,255	29,048
1 to 3 months	3,753	5,922
More than 3 months but less than 12 months	901	2,973
	<u>33,909</u>	<u>37,943</u>

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.

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.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2002, the directors had the following interests in the issued share capital of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance or the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") or as recorded in the register maintained pursuant to section 29 of the SDI Ordinance:

Name of director	Number of ordinary shares of HK\$0.02 each held		
	Personal interests	Corporate interests	Total interests
Mr. Richard John Siemens	–	513,529,500 <i>(Note 1)</i>	513,529,500
Mr. William Bruce Hicks	23,199,142	186,837,500 <i>(Note 2)</i>	210,036,642
Mr. Kuldeep Saran	3,412,000	183,537,500 <i>(Note 3)</i>	186,949,500
Mr. Shane Frederick Weir	100,000	–	100,000

Notes:

1. 24,000,000 shares are beneficially owned by Siemens Enterprises Limited, a company controlled by Mr. Richard John Siemens. 489,529,500 shares are beneficially owned by Goldstone Trading Limited, a company controlled by Mr. Siemens.
2. 186,837,500 shares are beneficially owned by Great Wall Holdings Limited, a company controlled by Mr. William Bruce Hicks.
3. 183,537,500 shares are beneficially owned by Future (Holdings) Limited, a company controlled by Mr. Kuldeep Saran.

The interests of the directors in the share options of the Company are separately disclosed in the heading of "Arrangement to enable directors to acquire shares or debentures" below.

Save as disclosed above, none of the directors, the chief executive and/or any of their associates had any interests in the shares or debt securities of the Company or any of its associated corporations (as defined in the SDI Ordinance) as at 30 June 2002 pursuant to the SDI Ordinance and the Model Code.

SUBSTANTIAL SHAREHOLDER

As at 30 June 2002, according to the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance, the Company was notified that the following shareholder was directly or indirectly interested in 10% or more of the Company's issued share capital.

Name of shareholder	Number of ordinary shares of HK\$0.02 held	Percentage of total issued share capital
Mr. Richard John Siemens *	513,529,500	10.93%

* The interest is the same as the corporate interest that Mr. Siemens had as disclosed under the heading of "Directors' Interests in Securities" above.

Save as disclosed above, the directors are not aware of any other party having an interest of 10% or more of the Company's issued share capital as at 30 June 2002.

