



e-K 港 NG

Convergence through Services

INTERIM

2001

REPORT

INTERIM RESULTS

The board of directors (the "Board") of e-Kong Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended June 30, 2001, together with comparative figures for the corresponding period in 2000. The results are unaudited but have been reviewed by the Audit Committee of the Company.

Condensed Consolidated Income Statement

		Six months ended June 30,	
		2001	2000
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	126,923	29,830
Cost of sales		(101,170)	(18,596)
Gross profit		25,753	11,234
Interest income		3,747	14,009
Other net income	3	0	23,449
		29,500	48,692
Distribution costs		(11,296)	0
Business promotion and marketing expenses		(20,688)	(17,558)
Administrative expenses		(108,469)	(27,845)
Depreciation and amortization		(16,342)	(2,935)
(Loss) / Profit from operations		(127,295)	354
Finance costs		(105)	0
Intangible assets and goodwill written off		(112,956)	0
Provision for diminution in value of long-term investments		(118,945)	0
Unrealized holding loss on current investments		(177,283)	0
Share of results of associates		(501)	3
(Loss) / Profit before taxation		(537,085)	357
Taxation	4	0	(739)
Loss after taxation		(537,085)	(382)
Minority interests		0	(897)
Net loss attributable to shareholders		(537,085)	(1,279)
Loss per share	5		
Basic		34.43 cents	0.09 cents
Diluted		N/A	N/A

Condensed Consolidated Statement of Recognized Gains and losses

	Six months ended June 30,	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Exchange difference on translation of foreign subsidiaries	(591)	0
Exchange reserve released on disposal of subsidiaries	0	(1,117)
Other capital reserve and reserve on consolidation released on disposal of subsidiaries	0	1,647
Impairment of goodwill on consolidation	69,335	0
Net loss attributable to shareholders	(537,085)	(1,279)
Total recognized losses	(468,341)	(749)
Goodwill eliminated directly against reserve	0	(7,272)
Goodwill arising on acquisition of further interests in a subsidiary	0	(700)
	(468,341)	(8,721)

Condensed Consolidated Balance Sheet

	As at June 30, 2001 (Unaudited) HK\$'000	As at December 31, 2000 (Audited) HK\$'000
ASSETS		
Non-current assets		
Property, plant and equipment	157,332	91,049
Intangible assets	0	42,366
Interests in associates	9,715	12,687
Long-term investments	45,610	302,381
	212,657	448,483
Current assets		
Current investments	107,538	0
Properties held for sale	0	3,734
Inventories	277	978
Trade and other receivables	58,676	73,791
Pledged deposits	5,000	68,680
Cash and bank balances	85,291	344,308
	256,782	491,491
Current liabilities		
Trade and other payables	87,962	97,657
Current portion of obligations under finance leases	4,927	582
	92,889	98,239
Net current assets	163,893	393,252
Total assets less current liabilities	376,550	841,735
Non-current liabilities		
Obligations under finance leases	2,575	0
Minority interests	711	119
NET ASSETS	373,264	841,616
CAPITAL AND RESERVES		
Issued capital	40,879	40,879
Reserves	332,385	800,737
	373,264	841,616

Condensed Consolidated Cash Flow Statement

	Six months ended June 30, 2001 (Unaudited) HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(136,324)
Net cash inflow from returns on investments and serving of finance	3,642
Tax paid	0
Net cash outflow from investing activities	<u>(89,978)</u>
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES	(222,660)
Net cash inflow from financing activities	<u>7,501</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(215,159)
Cash and cash equivalents at beginning of period	<u>412,988</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>197,829</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Cash and bank balances	85,291
Pledged deposit	5,000
Current investments	<u>107,538</u>
	<u><u>197,829</u></u>

Notes:

1. Basis of Presentation and Accounting Policies

The condensed consolidated interim financial statements are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants, except that the comparative figures are not presented for the first cash flow statement in accordance with Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended December 31, 2000, except that certain of the accounting policies have been changed after the adoption of the recently issued SSAP 30 "Business Combinations", which is effective for the accounting periods commencing on or after January 1, 2001.

According to the transitional provisions as set out in SSAP 30, the Group has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Therefore, goodwill arising on acquisitions prior to January 1, 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiaries, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to January 1, 2001 is held in reserves and will be credited to the income statement at the time of disposal of the relevant subsidiaries. Any goodwill arising on acquisitions after January 1, 2001 will be capitalized and amortized over its estimated useful life in accordance with SSAP 30.

2. Turnover and Segmental Information

By activities:

	Turnover		Segment Results	
	Six months ended June 30, 2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000	Six months ended June 30, 2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Telecommunication services income	105,078	4,027	(84,394)	(25,882)
Corporate events management services income	19,008	0	(10,480)	0
Insurance services income	1,544	45	(9,755)	(2,820)
Internet security solution services income	1,293	2,285	(1,442)	(574)
Sales of animated films	0	23,473	0	5,383
	<u>126,923</u>	<u>29,830</u>	<u>(106,071)</u>	<u>(23,893)</u>
Add: Interest income			3,747	14,009
Gain on disposal of subsidiaries			0	23,210
Less: Intangible assets and goodwill written off			(112,956)	0
Provision for diminution in value of long-term investments			(118,945)	0
Unrealized holding loss on current investments			(177,283)	0
Other operating expenses			(25,577)	(12,969)
			<u>(537,085)</u>	<u>357</u>

By geographical location:

	Turnover		Segment Results	
	Six months ended June 30, 2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000	Six months ended June 30, 2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Hong Kong	64,658	29,830	(50,602)	(23,893)
Singapore	6,762	0	(8,107)	0
U.S.A.	55,503	0	(47,362)	0
	<u>126,923</u>	<u>29,830</u>	<u>(106,071)</u>	<u>(23,893)</u>
<i>Add</i> : Interest income			3,747	14,009
Gain on disposal of subsidiaries			0	23,210
<i>Less</i> : Intangible assets and goodwill written off			(112,956)	0
Provision for diminution in value of long-term investments			(118,945)	0
Unrealized holding loss on current investments			(177,283)	0
Other operating expenses			(25,577)	(12,969)
			<u>(537,085)</u>	<u>357</u>

3. Other Net Income

	Six months ended June 30, 2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Gain on disposal of subsidiaries	0	23,210
Others	0	239
	<u>0</u>	<u>23,449</u>

4. Taxation

Hong Kong Profits Tax has not been provided as the Group has no assessable profits for the period.

	Six months ended June 30, 2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Hong Kong Profits Tax	0	0
Overseas taxation	0	739
	<u>0</u>	<u>739</u>

5. Loss Per Share

The calculation of basic loss per share is based upon the loss attributable to shareholders of HK\$537,085,000 (2000 : HK\$1,279,000) and on the weighted average number of ordinary shares of 1,559,963,712 (2000: 1,438,770,951) in issue during the period. The fully diluted loss per share for 2000 and 2001 is not shown because the potential ordinary shares would decrease the loss per share and would be regarded as anti-dilutive.

6. Comparative Figures

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

INTERIM DIVIDEND

The board of directors of the Company does not recommend the payment of any interim dividend for the six months ended June 30, 2001 (2000: Nil).

BUSINESS REVIEW AND OUTLOOK

During the period under review, the companies of e-Kong Group Ltd., particularly its ventures group, were affected by the slowdown of worldwide economies and negative market sentiments towards technology related companies. At the same time, however, the Group's service companies continued in constructive directions, with its businesses remaining unique and robust.

In the United States, ZONE Telecom Inc completed the acquisition of certain business and assets of Furst Group Inc in February 2001 and achieved the commercial nationwide launch of domestic-long distance and international telecommunications services in June 2001 under the name "ZoneLD". In Hong Kong, IDD minutes through ZONE1511 increased an average of more than 10% on a month-on-month basis during the review period. Switching and server facilities were upgraded and enhanced in August 2001 to accommodate the significant increase in IDD traffic from more than 160,000 customers and to position the business for further anticipated growth. ZONE1511's Singapore business grew in spite of the challenging business environment in which new major players are hesitant to enter a market which is still dominated by the incumbent operator.

EventClicks has grown its business into a comprehensive service for corporate event organizers in Asia-Pacific. The company has earned the endorsement of the region's top meeting, incentive and conference venues and suppliers, and can now offer event organizers information on over 800 venues in 20 countries throughout the region. During the period, a number of multinational corporations were served by EventClicks in organizing large-scale events throughout Asia-Pacific. Considering the current global economic climate, the company is well positioned to add value to its customers through a series of tailor-made corporate products designed to assist in the assessment and consolidation of corporate group travel management.

speedinsure faced challenges in introducing its novel direct on-line approach to buying insurance into an agent-centric and tradition-bound market. The company's strategy of teaming up with partners with large customer bases and extensive distribution channels has proved cost effective. The company scaled down its operations in Singapore to optimize its effective use of resources in concentrating on the Hong Kong market. *speedinsure* plans to move forward by focusing on securing strong relationships with strategic distribution partners.

The valuation of the Group's investments was significantly affected by declines in worldwide equity markets during the period and the continuing difficulties encountered by technology related companies. The Group has therefore taken a prudent approach to make provision for devaluation of its investments in order to reflect the fair value for the Group's investments.

The Group still believes that the businesses of its group companies are strong and offer unique value to both business partners and customers. ZONE1511 in Hong Kong is expected to be EBITDA positive by fourth quarter 2001, proving that its business model can achieve scalability within a relatively short period.

The Group is confident that its service businesses will continue to gain market share by improving efficiencies in delivering targeted services through the use of technology and through partnerships involving key distribution channels.

The Group will continue to monitor and review its operations and available resources and will realign its investments, streamline its operations and strengthen its financial resources to best ensure the maintained growth of its group businesses.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Group turnover for the period increased by 325% to HK\$126,923,000 compared to HK\$29,830,000 for the corresponding period in 2000. The growth is mainly attributed to revenue growth from the ZONE operating businesses.

The operational loss of HK\$127,295,000 is due mainly to the costs incurred during the growth phase of the Group's businesses. Consolidated net loss attributable to shareholders rose to HK\$537,085,000 from HK\$1,279,000. The significant increase in the loss is mainly attributable to the non-recurring losses of HK\$409,184,000 from write-offs of goodwill and intangible assets and provisions for the diminution in value of the Group's long-term investments and marketable securities.

Liquidity, Financial Resources and Funding

The Group relied principally on its internal resources to fund its operations and investment activities during the period.

Cash and bank balances (including pledged deposits) totaled HK\$90,291,000 as at June 30, 2001. As at June 30, 2001, the Group's liabilities under equipment lease financing amounted to HK\$7,502,000. The Group had no bank borrowings during the period under review.

Employees and Remuneration Policies

As at June 30, 2001, the Group employed about 250 staff. The Group's remuneration policies are in line with prevailing market practices and formulated on the basis of the performance and experience of individual employees.

The Company has granted share options to certain directors of the Company and certain employees of the Group to motivate their performance and contribution to the Group. Fringe benefits including training subsidies, provident fund and medical insurance are also offered to the employees.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, save and except that the independent non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the period.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited consolidated results for the six months ended June 30, 2001.

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.

By order of the Board
Derrick Francis Bulawa
Director

Hong Kong, September 24, 2001

DISCLOSURE OF INTERESTS

Directors' Interests in Shares

As at June 30, 2001, the directors had the following interests in the issued share capital of the Company as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or as recorded in the register maintained pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"):

Name of director	Number of shares held		Number of share options held
	Personal interest	Other interest	
Richard John Siemens	110,000,000	–	28,700,000 <i>(note 1)</i>
Derrick Francis Bulawa	–	–	38,518,509 <i>(note 2)</i>
Lim Shyang Guey	–	–	10,300,000 <i>(note 3)</i>
Johnson Chan (resigned on August 21, 2001)	100,000	–	–

Notes:

- 28,700,000 share options have been granted under the Employee Share Option Scheme of the Company (the "Scheme") which are exercisable at the exercise price of HK\$0.68 per share during the period from January 24, 2000 to October 24, 2009.
- 38,518,509 share options have been granted under the Scheme, in which (i) 23,961,235 share options are exercisable at the exercise price of HK\$0.42 per share during the period from October 25, 2000 to October 24, 2009; (ii) 4,750,000 share options are exercisable at the exercise price of HK\$0.49 per share during the period from November 16, 2000 to October 24, 2009; (iii) 250,000 share options are exercisable at the exercise price of HK\$0.60 per share during the period from December 23, 2000 to October 24, 2009; (iv) 25,000 share options are exercisable at the exercise price of HK\$0.69 per share during the period from January 3, 2001 to October 24, 2009; and (v) 9,532,274 share options are exercisable at the exercise price of HK\$0.35 per share during the period from October 25, 2000 to October 24, 2009.
- 10,300,000 share options have been granted under the Scheme, in which (i) 4,500,000 share options are exercisable at the exercise price of HK\$0.42 per share during the period from October 25, 2000 to October 24, 2009; (ii) 1,500,000 share options are exercisable at the exercise price of HK\$0.68 per share during the period from February 21, 2000 to October 24, 2009; (iii) 500,000 share options are exercisable at the exercise price of HK\$0.68 per share during the period from March 1, 2000 to October 24, 2009; and (iv) 3,800,000 share options are exercisable at the exercise price of HK\$2.30 per share during the period from April 3, 2000 to October 24, 2009.

Save as disclosed above, none of the directors, chief executive and/or any of their associates had any interests in the issued share capital of the Company or any of its associated corporations as defined in the SDI Ordinance as at June 30, 2001 pursuant to Section 29 of the SDI Ordinance.

Arrangement to enable directors to acquire shares or debentures

In accordance with the Scheme which was adopted in a Special General Meeting held on October 25, 1999, the directors of the Company may grant options to eligible employees, including directors, to subscribe for shares in the Company. Any options granted can be exercised within the period as set out in the rules and regulations for the Scheme.

During the period, no share options were granted to or exercised by the directors. Their outstanding options as at June 30, 2001 are shown above.

Apart from the above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable any director or chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors, the chief executive, nor any of their spouses or children under the age of 18 had any right to subscribe for the shares of the Company, or had exercised any such right during the period.

Substantial Shareholder

As at June 30, 2001, according to the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance, the Company was notified that the following shareholder had an interest of 10% or more of the Company's issued share capital.

Name of shareholder	Number of shares held	Percentage of total issued share capital
Goldtron Limited	207,717,140	13.32%

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at June 30, 2001.