e-KONG Group Limited

Interim Report 2010

Stock Code: 524

We are together

Corporate Information

Board of Directors

Executive Directors

Richard John Siemens *(Chairman)*
Lim Shyang Guey

Non-executive Directors

William Bruce Hicks
Ye Fengping

Independent Non-executive Directors

Shane Frederick Weir
John William Crawford J.P.
Gerald Clive Dobby

Company Secretary

Lau Wai Ming Raymond

Auditor

Mazars CPA Limited
Certified Public Accountants

Legal Advisers

Deacons
Conyers Dill & Pearman

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
DBS Bank Limited

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business

3705 Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong
Tel: +852 2801 7188
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Stock Codes

Hong Kong Stock Exchange:	524
Ticker Symbol for ADR:	EKONY
CUSIP Reference Number:	26856N109

Website

www.e-kong.com

Principal Share Registrar

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Branch Share Registrar in Hong Kong

Tricor Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

ADR Depositary

The Bank of New York Mellon
BNY Mellon Shareowner Services
P.O. Box 11258
Church Street Station
New York, NY 10286-1258
USA

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Condensed Consolidated Income Statement

For the six months ended 30 June 2010

The board of directors (the "Board") of e-Kong Group Limited (the "Company") herein presents the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2010, together with comparative figures for the corresponding period in 2009. The results were unaudited but have been reviewed by the Audit Committee and the auditor of the Company.

		Six months ended 30 June	
		2010	2009
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Turnover	*2*	**379,197**	387,088
Cost of sales		**(296,435)**	(295,091)
Gross profit		**82,762**	91,997
Other revenue and income	*3*	**177**	139
		82,939	92,136
Selling and distribution expenses		**(19,547)**	(21,437)
Business promotion and marketing expenses		**(2,380)**	(2,651)
Operating and administrative expenses		**(50,350)**	(51,873)
Other operating expenses		**(6,914)**	(8,625)
Profit from operations		**3,748**	7,550
Finance costs	*4*	**(27)**	(80)
Profit before taxation	*4*	**3,721**	7,470
Taxation	*5*	**(1,572)**	(1,575)
Profit for the period		**2,149**	5,895
Profit for the period attributable to:			
Equity holders of the Company		**2,139**	5,941
Non-controlling interests		**10**	(46)
Profit for the period		**2,149**	5,895
EBITDA	*6*	**8,912**	12,982
		HK cents	*HK cents*
Earnings per share	*7*		
Basic		**0.4**	1.1
Diluted		**0.4**	N/A

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit for the period	**2,149**	5,895
Other comprehensive income for the period		
Exchange differences on translation of foreign subsidiaries	**(102)**	204
Total comprehensive income for the period	**2,047**	6,099
Total comprehensive income for the period attributable to:		
Equity holders of the Company	**2,037**	6,145
Non-controlling interests	**10**	(46)
Total comprehensive income for the period	**2,047**	6,099

Condensed Consolidated Statement of Financial Position

As at 30 June 2010

	Notes	As at 30 June 2010 (Unaudited) HK$'000	As at 31 December 2009 (Audited) HK$'000
Non-current assets			
Property, plant and equipment	8	**17,267**	14,246
Intangible assets	9	**–**	–
Goodwill	10	**–**	–
Deferred tax assets		**14,786**	14,805
		32,053	29,051
Current assets			
Trade and other receivables	11	**99,694**	88,160
Pledged bank deposits		**2,210**	2,211
Cash and bank balances		**182,625**	197,426
		284,529	287,797
Current liabilities			
Trade and other payables	12	**111,301**	112,730
Current portion of obligations under finance leases		**149**	142
Taxation payable		**2,143**	2,956
		113,593	115,828
Net current assets		**170,936**	171,969
Total assets less current liabilities		**202,989**	201,020
Non-current liabilities			
Obligations under finance leases		**376**	453
Deferred tax liabilities		**244**	245
NET ASSETS		**202,369**	200,322
Capital and reserves			
Share capital		**5,229**	5,229
Reserves		**207,437**	195,093
Equity attributable to equity holders of the Company		**212,666**	200,322
Non-controlling interests		**(10,297)**	–
TOTAL EQUITY		**202,369**	200,322

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	Attributable to equity holders of the Company								
	Share capital (Unaudited) *HK$'000*	Share premium (Unaudited) *HK$'000*	Exchange reserve (Unaudited) *HK$'000*	Capital redemption reserve (Unaudited) *HK$'000*	Contributed surplus (Unaudited) *HK$'000*	Accumulated profits (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*	Non-controlling interests (Unaudited) *HK$'000*	Total equity (Unaudited) *HK$'000*
As at 1 January 2010	**5,229**	**68,341**	**2,328**	**6**	**83,489**	**40,929**	**200,322**	**–**	**200,322**
Total comprehensive income for the period	**–**	**–**	**(102)**	**–**	**–**	**2,139**	**2,037**	**10**	**2,047**
Deficit balance attributable to non-controlling interests upon adoption of HKAS 27 (Revised)	**–**	**–**	**–**	**–**	**–**	**10,307**	**10,307**	**(10,307)**	**–**
As at 30 June 2010	**5,229**	**68,341**	**2,226**	**6**	**83,489**	**53,375**	**212,666**	**(10,297)**	**202,369**
As at 1 January 2009	5,229	68,341	731	6	83,489	21,895	179,691	730	180,421
Total comprehensive income for the period	–	–	204	–	–	5,941	6,145	(46)	6,099
As at 30 June 2009	5,229	68,341	935	6	83,489	27,836	185,836	684	186,520

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash (used in) / generated from operating activities	**(6,343)**	2,922
Net cash used in investing activities	**(8,205)**	(3,683)
Net cash used in financing activities	**(69)**	(4,312)
Net decrease in cash and cash equivalents	**(14,617)**	(5,073)
Cash and cash equivalents as at 1 January	**199,637**	179,328
Exchange loss on cash and cash equivalents	**(185)**	–
Cash and cash equivalents as at 30 June	**184,835**	174,255
Analysis of the balances of cash and cash equivalents		
Pledged bank deposits	**2,210**	2,161
Cash and bank balances	**182,625**	172,094
	184,835	174,255

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated financial statements are unaudited and have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 bases of preparation adopted in these interim financial statements are consistent with those adopted in the Company's 2009 Annual Report except as described below.

In the current period, the Group has applied the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter, collectively, referred to as "new and revised HKFRSs") issued by HKICPA which are mandatory for annual periods beginning on or after 1 January 2010 and are relevant to the Group.

HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations

HKAS 27 (Revised) requires that total comprehensive income is attributed to the owners of the parent and non-controlling interests even if it results in the non-controlling interests having a deficit balance. This revised standard affects the Group's accounting policy for total comprehensive income attributable to the non-controlling interests. As the Group is exempted from applying the amendments retrospectively, the previously reported results of the Group are not required to be restated on the adoption of this revised standard.

HKFRS 3 (Revised) continues to apply the acquisition method to business combinations but with some significant changes when compared with HKFRS 3. While the adoption of this revised standard may affect the Group's accounting for business combinations if and when they occur in future, as the Group had no such transactions during the current period, the adoption of this revised standard has no impact on the Group.

The Group has not early adopted the new and revised HKFRSs issued by HKICPA that are not yet effective for the current period. The Group is in the process of assessing the possible impact on the adoption of these new and revised HKFRSs in future.

2. TURNOVER AND SEGMENTAL INFORMATION

The Group's management determines the operating segments for the purposes of resource allocations and performance assessments. The business segments of the Group comprise telecommunication services and other operations. The other operations include the provision of insurance brokerage and consultancy services.

Analyses of the Group's segmental information by business and geographical segments during the period are set out below.

(a) By business segments:

	Six months ended 30 June					
	2010			2009		
	Telecom-munication services (Unaudited) *HK$'000*	**Others (Unaudited) *HK$'000***	**Consolidated (Unaudited) *HK$'000***	Telecom-munication services (Unaudited) *HK$'000*	Others (Unaudited) *HK$'000*	Consolidated (Unaudited) *HK$'000*
Turnover						
External sales	**378,771**	**426**	**379,197**	386,661	427	387,088
Results						
Segment results	**12,870**	**33**	**12,903**	18,538	(13)	18,525
Finance costs			**(27)**			(80)
Other operating income and expenses			**(9,155)**			(10,975)
Profit before taxation			**3,721**			7,470

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2010

2. TURNOVER AND SEGMENTAL INFORMATION *(continued)*

(b) By geographical segments:

	Turnover from external sales		Property, plant and equipment	
	Six months ended 30 June		**30 June**	31 December
	2010	2009	**2010**	2009
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Audited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
North America	**341,533**	346,472	**13,101**	9,236
Asia Pacific	**37,664**	40,616	**4,166**	5,010
	379,197	387,088	**17,267**	14,246

3. OTHER REVENUE AND INCOME

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest income on bank deposits	**141**	105
Interest income on loan receivable	**32**	28
	173	133
Other	**4**	6
	177	139

4. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging the following:

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Finance costs:		
Interest on bank loan and other borrowings wholly repayable within five years	**–**	(46)
Finance charges on obligations under finance leases	**(27)**	(34)
	(27)	(80)
Depreciation	**(5,164)**	(5,432)

5. TAXATION

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current tax		
Overseas income taxes	**(1,572)**	(1,575)

Hong Kong Profits Tax has not been provided as the Group's assessable profit for the period was wholly absorbed by unrelieved tax losses brought forward from previous years.

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

6. EBITDA

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

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2010 is based on the consolidated profit attributable to equity holders of the Company of HK$2,139,000 (30 June 2009: HK$5,941,000) and on the 522,894,200 (30 June 2009: 522,894,200) shares in issue during the period.

Diluted earnings per share for the six months ended 30 June 2010 is the same as the basic earnings per share.

Diluted earnings per share for the six months ended 30 June 2009 has not been presented as the exercise prices of the share options were higher than the average market price of the shares.

8. ACQUISITIONS AND DISPOSALS OF PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at the cost of HK$8,219,000 (31 December 2009: HK$3,140,000) and those at the cost of HK$222,000 (31 December 2009: HK$5,897,000) were disposed of.

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2010

9. INTANGIBLE ASSETS

	As at 30 June 2010 (Unaudited) ***HK$'000***	As at 31 December 2009 (Audited) *HK$'000*
Cost	**56,530**	56,530
Accumulated amortisation and impairment losses	**(56,530)**	(56,530)
	–	–

As a result of the significant economic downturn in the fourth quarter of 2008, management considered that impairment losses on the intangible assets related to development costs and customer contracts in respect of the telecommunication business had occurred and, therefore, full impairment was recognised in the year of 2008.

10. GOODWILL

	As at 30 June 2010 (Unaudited) ***HK$'000***	As at 31 December 2009 (Audited) *HK$'000*
Cost	**3,237**	3,237
Accumulated impairment losses	**(3,237)**	(3,237)
	–	–

Goodwill arose from the acquisition of a 5% additional interest in the share capital of a subsidiary during the year of 2009. As a result of the acquisition, the subsidiary became wholly-owned by the Company. The Group assessed the recoverable value of the goodwill and, after considering the value of the sole asset of the subsidiary as being fully impaired, determined that the goodwill was also impaired and, therefore, fully provided for it in 2009.

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2010 (Unaudited)	As at 31 December 2009 (Audited)
	HK$'000	*HK$'000*
Trade receivables	**82,110**	77,137
Other receivables		
Deposits, prepayments and other debtors	**17,584**	11,023
	99,694	88,160

The Group's credit terms on sales mainly range from 30 to 90 days. Included in trade and other receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis by invoice date:

	As at 30 June 2010 (Unaudited)	As at 31 December 2009 (Audited)
	HK$'000	*HK$'000*
Less than 1 month	**75,845**	66,489
1 to 3 months	**5,519**	8,177
More than 3 months but less than 12 months	**746**	2,471
	82,110	77,137

12. TRADE AND OTHER PAYABLES

	As at 30 June 2010 (Unaudited) ***HK$'000***	As at 31 December 2009 (Audited) *HK$'000*
Trade payables	**51,317**	53,377
Other payables		
Accrued charges and other creditors	**59,984**	59,353
	111,301	112,730

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

	As at 30 June 2010 (Unaudited) ***HK$'000***	As at 31 December 2009 (Audited) *HK$'000*
Less than 1 month	**49,660**	37,586
1 to 3 months	**756**	15,140
More than 3 months but less than 12 months	**901**	651
	51,317	53,377

Report on Review of Interim Financial Statements

MAZARS

MAZARS CPA LIMITED
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To the Audit Committee of

e-Kong Group Limited
(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial statements set out on pages 1 to 12, which comprised the condensed consolidated statement of financial position of e-Kong Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2010 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these interim financial statements in accordance with HKAS 34.

Our responsibility is to express a conclusion on these interim financial statements based on our review and report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Mazars CPA Limited
Certified Public Accountants

Hong Kong, 27 August 2010

Eunice Y M Kwok
Practising Certificate number: P04604

Business Review and Outlook

Overall Performance

During the period under review, the Group remained focused on diversifying and broadening its revenue base in the telecom and IT sector, which helped to offset some ongoing challenges imposed by uncertainties in the industry dynamics and impending regulatory reforms affecting the Group's business performance, particularly in the United States. The Group's turnover remained steady at HK$379.2 million for the first half of 2010 compared to HK$387.1 million for the same period in 2009. Gross margin fell from 23.8% for the prior period to 21.8% while operating expenses were further reduced following improvements in operating efficiencies. The decrease in gross margin was due mainly to the competitive market environment and also to changes in the revenue mix with an increasing proportion being generated from the wholesale segment which typically generates higher traffic volume but has a lower average price per minute and gross margin. Consequentially, the profit attributable to equity holders decreased to HK$2.1 million for the period under review as compared with HK$5.9 million in the previous corresponding period. EBITDA amounted to HK$8.9 million, compared to HK$13.0 million for the prior period. The Group's financial position continues to strengthen with the net asset value increasing from HK$200.3 million at the 2009 year end to HK$202.4 million.

US Operations

During the first half of 2010, despite facing various challenges in the market dynamics and weak economic conditions in the United States, ZONE achieved turnover of HK$341.5 million which was only slightly lower than the HK$346.5 million recorded in the corresponding period in the prior year. During these uncertain times, ZONE has remained prudent in maintaining strong financial and cash positions. At the same time, it has continued to invest vigilantly in expanding its switching facilities and network infrastructure which has helped to improve short term operating efficiencies and ensure that it remains competitive for the foreseeable future.

The squeeze on profitability of ZONE's ILEC customers due to repeated rate increases over the last few years by the first tier carriers, many of which were subsequently passed on to the customers, accelerated the migration by ILEC customers from their long-standing business model of routing minutes as higher cost switched traffic to a different model of routing them through dedicated circuits. That accelerated migration became apparent during the second quarter of the year. In a longer term, the continuing migration trend is expected to result in a drop in revenue from the ILEC segment due to the negative variance in the weighted average price per minute between switched and dedicated traffic. ZONE is however prepared for this transition within the ILEC sector, having over the past several years installed new VoIP switch facilities to further extend its network capabilities to allow for lower cost access to customers.

During the period under review, the wholesale segment experienced significant growth due to the strength of ZONE's switching facilities operated on both the West and East coasts. ZONE's terminating backbone features significant diversity and quality of termination which meet both customer demands and cost efficiencies. Furthermore, ZONE has also implemented various software-based functionalities to monitor real-time terminating options with each carrier to ensure profitability.

The enterprise segment was affected by the difficult operating environment and short duration penalties imposed by some carrier partners which forced some price-sensitive enterprise customers to look for alternative telecom solutions. Nevertheless, the enterprise segment began to experience a rebound in turnover in the second quarter of 2010 as ZONE's efforts made to refocus on the needs of current and new agents for product and sales tools started to deliver tangible results. Data and local services were the primary focus for improvement, which allowed for greater diversity in product offerings as well as more competitive pricing. The launch of various marketing promotions also stimulated increased new sales and retention of existing customers. In the first half of 2010, ZONE signed up one of the largest master agent distributors in the US, which engages over 2,000 sub-agents across the country.

Asia Operations

In the first half of 2010, ZONE Asia recorded turnover of HK$37.3 million, a decrease in 7.3% as compared to HK$40.2 million for the same period in 2009. While the overall economic situation has improved in Asia, the telecommunication sector remains highly competitive in both Singapore and Hong Kong, where ZONE Asia derives most of its revenue. ZONE Asia continues to expand beyond its traditional business and geographical scope in order to broaden its revenue base and to be less reliant on revenue derived from its voice business.

In Hong Kong, ZONE recorded increasing revenue contribution from its solution-based business with successes in securing sizeable orders from both enterprise customers and government-related organisations. ZONE has further widened its business scope and product offerings by forming commercial and strategic relationships with a number of well known IT vendors including being an authorised agent for DELL to resell their computer and enterprise-grade server hardware and for Juniper Networks for their network equipment.

In addition to growing its sales team locally in Hong Kong, ZONE has extended its sales and marketing initiatives globally by actively promoting its products and services through its new website (*www.zonetel.com*) and other online marketing platforms.

In Singapore, ZONE's core International Direct Dialing business continues to face stiff competition, in particular, from the first tier carriers. Despite the competition, ZONE has continued to expand its user base and stabilise its usage volume with new service features such as conference call solutions, SMS broadcasting and fraudulent call security features targeted at the corporate market, which is in line with its strategy to re-align marketing efforts to promote higher margin products.

Towards the end of the second quarter in 2010, ZONE started to market its VoIP services through resellers in Middle Eastern countries, and it plans to expand into other countries in the South-east Asia region in the near future. ZONE is currently upgrading its infrastructure and product development capabilities while at the same time enhancing its human resources and improving their skill sets to support its business expansion plans. The enhancements to its core competencies are expected to position ZONE to increase and widen its customer base at a faster rate and to further expand its service offerings.

Outlook

In the United States, continuing cost pressures and uncertainties surrounding regulatory reforms have recently accelerated the pace of merger and acquisition (M&A) and consolidation activities in the telecom industry. Given such a macro environment, based on its strong financial position, the Group has positioned itself to explore a number of M&A opportunities that have been presented. The Group appreciates the increased value which can be achieved when the ZONE operations in the United States reach a size and scale whereby it can fully capitalise on its niche position and be able to extend its products and services into other complementary markets and geographical regions. Considerable progress has been made in advancing some of the discussions with prospective targets during the period under review and the Group expects to conclude one or more such potential transactions during the coming six months.

In Asia, during the second half year, the Group will continue to build a more diversified revenue base and further enhance its competitive position in the region for ZONE business. At the same time, it will advance its M&A activities to pursue opportunities that complement its current operations as well as other potential targets that provide geographical and product diversity.

Financial Review

Turnover

During the period under review, the Group's turnover decreased by 2.0% from HK$387.1 million to HK$379.2 million.

Total Operating Expenses

The Group continued to execute its cost savings initiatives during the period, and managed to reduce its total operating expenses to HK$79.2 million for the period under review when compared to HK$84.6 million for the corresponding period in the previous year. Among other efforts, selling and distribution expenses dropped from HK$21.4 million (representing 5.5% of the period turnover) to HK$19.5 million (representing 5.2% of the period turnover).

Results

The gross profit for the current period dropped by 10.0% to HK$82.8 million, compared to HK$92.0 million for the corresponding period in the previous year. The operating profit for the period amounted to HK$3.7 million as compared to HK$7.6 million for the same period last year.

Consolidated profit attributable to equity holders of the Company was HK$2.1 million as compared to HK$5.9 million for the first six months of 2009.

The Group's EBITDA for the period under review amounted to HK$8.9 million as compared to HK$13.0 million for the same period last year.

Interim Dividend

The Board does not recommend payment of a dividend for the six months ended 30 June 2010 (30 June 2009: Nil).

Capital Structure, Liquidity and Financing

The Group maintained its healthy liquidity position as net current assets decreased slightly to HK$171.0 million (31 December 2009: HK$172.0 million). Net assets of the Group increased to HK$202.4 million as at 30 June 2010 (31 December 2009: HK$200.3 million).

Capital expenditure for this period amounted to HK$8.2 million which is higher than the same period last year due to expansion of the ZONE switching facilities and network capabilities, and such on-going capital funding was covered by internally generated cashflow.

Cash and bank balances (excluding pledged bank deposits) as at 30 June 2010 amounted to HK$182.6 million (31 December 2009: HK$197.4 million). The Group had pledged bank deposits of HK$2.2 million as at 30 June 2010 (31 December 2009: HK$2.2 million) to banks for guarantees made to suppliers.

There were no outstanding bank borrowings as at 30 June 2010 (31 December 2009: Nil).

As at 30 June 2010, the Group's liabilities under equipment lease financing amounted to HK$0.5 million (31 December 2009: HK$0.6 million).

The Group's gearing ratio, measured on the basis of total borrowings as a percentage of net assets, remained at the low level of 0.3% (31 December 2009: 0.3%).

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 that there are no significant exposures to foreign exchange fluctuations as long as the Hong Kong-United States dollar exchange rate remains pegged. The Group continues to closely monitor the Singapore-United States dollar exchange rate and, if cash contributions from the Singapore operations increase in future and currency exchange markets continue to be volatile, the Group will, whenever appropriate, take any necessary action to reduce such exchange risks. In this regard, as at 30 June 2010, no related hedges had yet been undertaken by the Group.

Contingent Liabilities and Commitments

As at 30 June 2010, there were no material contingent liabilities or commitments.

Save as aforesaid, the directors are not aware of any other material changes from information disclosed in the Company's 2009 Annual Report.

Additional Information

Directors' interests in securities

As at 30 June 2010, the interests and short positions of the directors and the chief executive of the Company in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, the "SFO") as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company or The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules are set out below.

Name of director	Capacity	Number of Shares* held	Approximate percentage of shareholding
Richard John Siemens	Held by controlled corporations	119,180,200 *(Note 1)*	22.8%
William Bruce Hicks	Personal	3,949,914	0.8%
	Held by a controlled corporation	67,962,428 *(Note 2)*	13.0%
Lim Shyang Guey	Personal	3,000,000	0.6%
Shane Frederick Weir	Personal	10,000	0.0%

* *"Shares" means ordinary shares of HK$0.01 each in the share capital of the Company.*

Notes:

1. *19,180,000 Shares are beneficially owned by Siemens Enterprises Limited and 100,000,200 Shares are beneficially owned by Goldstone Trading Limited, both companies controlled by Mr. Richard John Siemens.*

2. *67,962,428 Shares are beneficially owned by Great Wall Holdings Limited, a company controlled by Mr. William Bruce Hicks.*

All interests disclosed above represent long positions in the shares of the Company and there were no underlying shares held by the directors as at 30 June 2010.

Save as disclosed above, as at 30 June 2010, none of the directors or the chief executive of the Company (including their spouses and children under the age of 18) had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Arrangement to enable directors to acquire shares or debentures

Apart from the share option scheme that is adopted or may thereafter be adopted by the Company or any of its subsidiaries and referred to in the paragraph below entitled "Share option scheme", at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable any director or the 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 of the Company nor any of their spouses or children under the age of 18 had any interests in, or had been granted, any rights to subscribe for shares in or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights during the period.

Additional Information (continued)

Substantial shareholders

As at 30 June 2010, the interests and short positions of the persons, other than the directors or the chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company, are set out below.

Name of shareholder	Number of Shares* held	Approximate percentage of shareholding
Goldstone Trading Limited *(Note 1)*	100,000,200	19.1%
Future (Holdings) Limited	74,676,461	14.3%
Ganado Investments Corporation Ltd. *(Note 2)*	74,676,461	14.3%
Jennifer Wes Saran *(Note 2)*	75,017,661	14.3%
Great Wall Holdings Limited *(Note 1)*	67,962,428	13.0%

* *"Shares" means ordinary shares of HK$0.01 each in the share capital of the Company.*

Notes:

1. *These interests represent the same interests as the corporate interests of Mr. Richard John Siemens (being held through Goldstone Trading Limited) and Mr. William Bruce Hicks (being held through Great Wall Holdings Limited) as disclosed in the notes under the heading of "Directors' interests in securities" above.*

2. *These shares are held by Future (Holdings) Limited which is controlled by Ganado Investments Corporation Ltd., which in turn is controlled by Mrs. Jennifer Wes Saran.*

All interests disclosed above represent long positions in the shares of the Company.

Save as disclosed above, as at 30 June 2010, the Company was not notified of any persons, other than the directors and the chief executive of the Company, having any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company.

Share option scheme

The Company

On 28 June 2002, the Company adopted a share option scheme. Under the share option scheme, the directors of the Company may at their discretion grant share options to (i) any director, employee, consultant, customer, supplier, business introduction agent, or legal, financial or marketing adviser of or contractor to any company in the Group or any affiliate and / or (ii) any discretionary trust the discretionary objects of which include any of the foregoing, under the terms and conditions stipulated therein. No share options have been granted by the Company under the share option scheme since adoption.

Subsidiaries

On 28 June 2002, the Company adopted scheme rules and procedures for share option schemes for its subsidiaries (the "Subsidiary Scheme Rules and Procedures"). In accordance with the Subsidiary Scheme Rules and Procedures, the subsidiaries may adopt their own respective share option schemes in line with the terms and conditions of the Subsidiary Scheme Rules and Procedures, pursuant to which the board of directors of each of the relevant subsidiaries may at its discretion grant share options to (i) any director, employee, consultant, customer, supplier, business introduction agent, or legal, financial or marketing adviser of or contractor to that subsidiary and its subsidiaries, any of its holding companies or any affiliate and / or (ii) any discretionary trust the discretionary objects of which include any of the foregoing. No subsidiaries have activated their share option scheme powers pursuant to the terms and conditions of the Subsidiary Scheme Rules and Procedures since adoption.

During the period, no share options were held by the directors, chief executive or substantial shareholders of the Company, suppliers of goods or services or other participants.

Corporate governance

The directors of the Company are committed to maintaining high standards of corporate governance in discharging their obligations to act in the best interests of shareholders and enhance long-term shareholder value. Except for the deviation described below, 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 2010, acting in compliance with the Code on Corporate Governance Practices ("Corporate Governance Code") as set out in Appendix 14 to the Listing Rules.

Code provision A.2.1 of the Corporate Governance Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual so that the responsibilities are not concentrated with any one person. The Company has, formulated as part of its written policies, established and recorded in writing the respective responsibilities of the Chairman and the chief executive officer (being undertaken by the Managing Director) of the Company, in which it is specified that the Chairman is responsible for providing leadership to and effective running of the Board, while the Managing Director is delegated with the authority and responsibility for overseeing the realisation of the budgets and objectives set by the Board. Nevertheless, with the unanimous approval of the Board, Mr. Richard John Siemens, the Chairman, has also assumed the role of the chief executive officer of the Company since 16 June 2007. The Board from time to time re-assesses the possible negative impact of the Company deviating from Corporate Governance Code A.2.1, and believes that vesting the roles of both chairman and chief executive officer in the same person enables more effective and efficient planning of expansion blueprints together with implementation of business plans and growth strategies. At the same time, it is believed that the balance of power and authority is not impaired and is adequately ensured by an effective Board which is comprised of experienced and high calibre individuals with a sufficient number thereof being independent non-executive directors.

Model code for securities transactions by directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 six months ended 30 June 2010.

Audit committee

The Audit Committee has reviewed, with the management and the auditor 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 2010. The review conducted by the auditor of the Company was in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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.

Additional Information (continued)

Employee remuneration policies

As at 30 June 2010, the Group had 133 (31 December 2009: 142) employees in the United States, China, Hong Kong and Singapore. The Group's total staff costs for the six months ended 30 June 2010 amounted to HK$34.4 million (30 June 2009: HK$36.4 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 its objectives. In addition to salary and bonus payments, the Group also offers other fringe benefits, including provident fund and medical benefits, to its employees.

Environmental awareness

Over the years, the Group has made considerable endeavours in reducing waste in the course of its operations. Since the year of 2008, the Company has participated in the "Wastewi$e Label" of the Hong Kong Awards for Environmental Excellence, which is a recognition scheme established by, among others, the Environmental Protection Department and Environmental Campaign Committee to encourage Hong Kong businesses and organisations in adopting structured measures to reduce the amount of waste generated within their establishments or generated through the services and products they provide. The Company has been awarded with "Class of Excellence" Wastewi$e Label for three consecutive years.

Appreciation

The Board would like to thank all customers, shareholders, business associates and professional advisers for their continuous support and extend its appreciation to all fellow directors and employees for their invaluable efforts and hard work, dedication and commitment to the Group during the period.

By Order of the Board

Lau Wai Ming Raymond
Company Secretary

27 August 2010