



## *Interim Report 2014*



# e-KONG Group Limited

Stock Code: 524

We are together





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## Corporate Information

### Board of Directors

#### *Executive Directors*

Richard John Siemens (*Chairman*)  
Lim Shyang Guey

#### *Independent Non-executive Directors*

John William Crawford J.P.  
Gerald Clive Dobby  
Thomas Thaddeus Beczak

### 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  
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Hong Kong  
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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](http://www.e-kong.com)

### Principal Share Registrar

MUFG Fund Services (Bermuda) Limited  
The Belvedere Building  
69 Pitts Bay Road  
Pembroke HM08  
Bermuda

### Branch Share Registrar in Hong Kong

Tricor Secretaries Limited  
Level 22  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

### ADR Depositary

The Bank of New York Mellon  
BNY Mellon Shareowner Services  
P.O. Box 30170  
College Station, TX 77842-3170  
USA

# Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2014

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 2014, together with comparative figures for the corresponding period in 2013. The results are unaudited but have been reviewed by the Audit Committee and the external auditor of the Company.

	Notes	Six months ended 30 June	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
<b>Turnover</b>	2	<b>38,588</b>	36,601
Cost of sales		<b>(18,472)</b>	(17,310)
Gross profit		<b>20,116</b>	19,291
Other revenue and income	3	<b>688</b>	1,123
		<b>20,804</b>	20,414
Selling and distribution expenses		<b>(3,064)</b>	(2,861)
Business promotion and marketing expenses		<b>(2,309)</b>	(1,670)
Operating and administrative expenses		<b>(24,771)</b>	(23,484)
Other operating expenses		<b>(2,779)</b>	(2,622)
<b>Loss from operations</b>		<b>(12,119)</b>	(10,223)
Finance costs	4	<b>(482)</b>	(579)
Share of results of joint ventures	10	<b>(28,661)</b>	(495)
<b>Loss before taxation</b>	4	<b>(41,262)</b>	(11,297)
Taxation credit / (charges)	5	<b>51</b>	(600)
<b>Loss for the period</b>		<b>(41,211)</b>	(11,897)
<b>Loss for the period attributable to:</b>			
Equity holders of the Company		<b>(39,838)</b>	(11,199)
Non-controlling interests		<b>(1,373)</b>	(698)
<b>Loss for the period</b>		<b>(41,211)</b>	(11,897)
		<b>HK cents</b>	HK cents
<b>Loss per share</b>	7		
Basic and diluted		<b>(7.7)</b>	(2.2)

## Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
<b>Loss for the period</b>	<b>(41,211)</b>	(11,897)
<b>Other comprehensive income / (loss) for the period</b> <i>Item that may be subsequently reclassified to profit or loss:</i>		
Exchange differences on translation of foreign subsidiaries and joint ventures	170	(569)
<b>Total comprehensive loss for the period</b>	<b>(41,041)</b>	(12,466)
<b>Total comprehensive loss for the period attributable to:</b>		
Equity holders of the Company	(39,668)	(11,768)
Non-controlling interests	(1,373)	(698)
<b>Total comprehensive loss for the period</b>	<b>(41,041)</b>	(12,466)



# Condensed Consolidated Statement of Financial Position

As at 30 June 2014

	Notes	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	8	5,917	6,503
Intangible assets	9	12,588	13,505
Interests in joint ventures	10	103,064	131,655
Deferred tax assets		45	45
		<b>121,614</b>	151,708
<b>Current assets</b>			
Inventories		847	847
Trade and other receivables	11	17,565	17,041
Pledged bank deposits	12	79,075	79,402
Cash and bank balances		19,980	32,814
		<b>117,467</b>	130,104
<b>Current liabilities</b>			
Trade and other payables	13	19,274	19,606
Current portion of bank borrowings	14	2,997	2,968
Taxation payable		406	267
		<b>22,677</b>	22,841
<b>Net current assets</b>		<b>94,790</b>	107,263
<b>Total assets less current liabilities</b>		<b>216,404</b>	258,971
<b>Non-current liabilities</b>			
Deferred revenue		724	775
Bank borrowings	14	77,999	79,478
Deferred tax liabilities		372	368
		<b>79,095</b>	80,621
<b>NET ASSETS</b>		<b>137,309</b>	178,350
<b>Capital and reserves</b>			
Share capital		5,210	5,210
Reserves		138,475	178,143
Equity attributable to equity holders of the Company		<b>143,685</b>	183,353
Non-controlling interests		<b>(6,376)</b>	(5,003)
<b>TOTAL EQUITY</b>		<b>137,309</b>	178,350

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

	Attributable to equity holders of the Company									
	Share capital	Share premium	Exchange reserve	Capital redemption reserve	Capital reserve	Contributed surplus	Accumulated profits / (losses)	Total	Non-controlling interests	Total equity
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
As at 1 January 2014	5,210	67,093	3,143	25	2,077	83,489	22,316	183,353	(5,003)	178,350
Loss for the period	-	-	-	-	-	-	(39,838)	(39,838)	(1,373)	(41,211)
Other comprehensive income for the period										
<i>Item that may be subsequently reclassified to profit or loss:</i>										
Exchange differences on translation of foreign subsidiaries and joint ventures	-	-	170	-	-	-	-	170	-	170
Total comprehensive loss for the period	-	-	170	-	-	-	(39,838)	(39,668)	(1,373)	(41,041)
<b>As at 30 June 2014</b>	<b>5,210</b>	<b>67,093</b>	<b>3,313</b>	<b>25</b>	<b>2,077</b>	<b>83,489</b>	<b>(17,522)</b>	<b>143,685</b>	<b>(6,376)</b>	<b>137,309</b>
As at 1 January 2013	5,210	67,093	3,724	25	6	83,489	54,945	214,492	(970)	213,522
Loss for the period	-	-	-	-	-	-	(11,199)	(11,199)	(698)	(11,897)
Other comprehensive loss for the period										
<i>Item that may be subsequently reclassified to profit or loss:</i>										
Exchange differences on translation of foreign subsidiaries and joint ventures	-	-	(569)	-	-	-	-	(569)	-	(569)
Total comprehensive loss for the period	-	-	(569)	-	-	-	(11,199)	(11,768)	(698)	(12,466)
As at 30 June 2013	5,210	67,093	3,155	25	6	83,489	43,746	202,724	(1,668)	201,056



# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Net cash used in operating activities	<b>(10,855)</b>	(9,474)
Net cash (used in) / generated from investing activities	<b>(574)</b>	373
Net cash used in financing activities	<b>(1,498)</b>	(1,479)
Net decrease in cash and cash equivalents	<b>(12,927)</b>	(10,580)
Cash and cash equivalents as at 1 January	<b>32,814</b>	55,706
Exchange gain / (loss) on cash and cash equivalents	<b>93</b>	(293)
<b>Cash and cash equivalents as at 30 June</b>	<b>19,980</b>	44,833

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2014*

## **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 2013 Annual Report.

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

## **2. TURNOVER AND SEGMENTAL INFORMATION**

The Group's management, who are the chief operating decision-makers, determine the operating segments for the purposes of resource allocation and performance assessment. The business segments of the Group comprise telecommunication services and other operation, representing the provision of insurance-related product distribution services.

Segment results represent the results before taxation earned by each segment without allocation of central operating and administrative expenses. All assets are allocated to reportable segments other than unallocated assets which are mainly cash and bank balances. All liabilities are allocated to reportable segments other than corporate liabilities.

## 2. TURNOVER AND SEGMENTAL INFORMATION *(continued)*

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							
	2014				2013			
	Telecom- munication services (Unaudited)	Other operation (Unaudited)	Eliminations (Unaudited)	Consolidated (Unaudited)	Telecom- munication services (Unaudited)	Other operation (Unaudited)	Eliminations (Unaudited)	Consolidated (Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>								
External sales	37,929	659	-	38,588	35,935	666	-	36,601
Inter-segment sales	144	-	(144)	-	134	-	(134)	-
	<b>38,073</b>	<b>659</b>	<b>(144)</b>	<b>38,588</b>	<b>36,069</b>	<b>666</b>	<b>(134)</b>	<b>36,601</b>
<b>Results</b>								
Segment results	739	(2,752)	-	(2,013)	774	(1,872)	-	(1,098)
Finance costs	(482)	-	-	(482)	(579)	-	-	(579)
Share of results of joint ventures	(28,661)	-	-	(28,661)	(495)	-	-	(495)
	<b>(28,404)</b>	<b>(2,752)</b>	-	<b>(31,156)</b>	<b>(300)</b>	<b>(1,872)</b>	-	<b>(2,172)</b>
Other operating income and expenses				(10,106)				(9,125)
<b>Loss before taxation</b>				<b>(41,262)</b>				<b>(11,297)</b>

Inter-segment sales are charged at prevailing market prices.

## Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

**2. TURNOVER AND SEGMENTAL INFORMATION** (continued)(a) *By business segments* (continued)

	As at 30 June 2014			As at 31 December 2013		
	Telecom- munication services (Unaudited) HK\$'000	Other operation (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000	Telecom- munication services (Audited) HK\$'000	Other operation (Audited) HK\$'000	Consolidated (Audited) HK\$'000
	<b>Assets</b>					
Reportable segments	<b>150,488</b>	<b>1,946</b>	<b>152,434</b>	177,701	1,962	179,663
Unallocated assets			<b>86,647</b>			102,149
			<b>239,081</b>			281,812
<b>Liabilities</b>						
Reportable segments	<b>(98,500)</b>	<b>(1,856)</b>	<b>(100,356)</b>	(99,221)	(2,347)	(101,568)
Unallocated liabilities			<b>(1,416)</b>			(1,894)
			<b>(101,772)</b>			(103,462)

(b) *By geographical information*

The Group generates its turnover from the Asia Pacific region. Its property, plant and equipment and intangible assets are located in the Asia Pacific region, and its interests in joint ventures are located in North America.

**3. OTHER REVENUE AND INCOME**

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Interest income on bank deposits	<b>139</b>	311
Other	<b>549</b>	812
	<b>688</b>	1,123

#### 4. LOSS BEFORE TAXATION

Loss before taxation is stated after charging the following:

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Finance costs:		
Interest on bank loans wholly repayable within five years	(482)	(579)
	(482)	(579)
Amortisation of intangible assets	(1,041)	(1,053)
Depreciation of property, plant and equipment	(1,195)	(1,268)

#### 5. TAXATION CREDIT / (CHARGES)

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
<b>Current tax</b>		
Overseas income taxes	(229)	(600)
Over-provisions on overseas income taxes in prior years	280	–
	51	(600)

For the six months ended 30 June 2014, Hong Kong Profits Tax has not been provided as the Group's assessable profits for the period were wholly absorbed by unrelieved tax losses brought forward from previous years. For the six months ended 30 June 2013, no provision for Hong Kong Profits Tax has been made as the Group incurred a loss for taxation purposes.

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

## Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

**6. DIVIDEND**

The Board does not recommend payment of a dividend for the six months ended 30 June 2014 (30 June 2013: Nil).

**7. LOSS PER SHARE**

The calculation of basic loss per share for the six months ended 30 June 2014 is based on the consolidated loss attributable to equity holders of the Company of HK\$39,838,000 (30 June 2013: loss of HK\$11,199,000) and on the number of 521,000,000 (30 June 2013: 521,000,000) shares in issue during the period.

The Group has no dilutive potential ordinary shares in issue during the current and prior periods and, therefore, the diluted loss per share is the same as the basic loss per share for the periods presented.

**8. ACQUISITIONS AND DISPOSALS OF PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group acquired property, plant and equipment at a cost of HK\$587,000 (31 December 2013: HK\$2,247,000) and certain property, plant and equipment at a cost of HK\$63,000 (31 December 2013: HK\$729,000) were disposed of.

**9. INTANGIBLE ASSETS**

	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
Cost at the beginning of the period / year	<b>20,218</b>	20,786
Exchange adjustments	<b>162</b>	(568)
	<b>20,380</b>	20,218
Accumulated amortisation and impairment losses	<b>(7,792)</b>	(6,713)
	<b>12,588</b>	13,505

Intangible assets related to development costs and customer contracts in respect of domain name registration, web / data hosting and other services.



## 10. INTERESTS IN JOINT VENTURES

	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
Share of total equity	<b>75,639</b>	104,230
Goodwill	<b>27,425</b>	27,425
	<b>103,064</b>	131,655

As at 30 June 2014, the Group had interests in the following joint ventures:

Name of joint venture	Form of business structure	Place of establishment / operation	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held	Principal activities
			Directly	Indirectly		
ANZ Communications LLC ("ANZ")	Limited liability company	United States of America	50%	–	50%	Investment holding
ANPI Business, LLC	Limited liability company	United States of America	–	50%	50%	Provision of telecommunication services
ANPI, LLC	Limited liability company	United States of America	–	50%	50%	Provision of telecommunication services
ANPI India Research & Development Private Limited	Limited liability company	India	–	50%	50%	Provision of research and development in the area of telecommunication

All of the above joint ventures are accounted for using the equity method in the condensed consolidated financial statements.

## Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

**10. INTERESTS IN JOINT VENTURES** (continued)

The Group has a 50% equity interest in ANZ. ANZ is an investment holding company and its operating subsidiaries are principally engaged in the business of provision of voice and data telecommunication services, and is in the course of investing and executing its plan to roll-out Unified Communication hosted solutions and cloud applications in the United States.

The Group holds 50% of the voting units outstanding in ANZ and controls 50% of the voting power in general meetings. Since the major financing and operational decisions of ANZ should be unanimously approved by the Group and another joint venture partner, ANZ and its subsidiaries are regarded as joint ventures of the Group.

The financial information in respect of the Group's joint ventures extracted from their financial statements have been prepared in accordance with generally accepted accounting principles in their places of establishment and are adjusted by the Group for equity method purposes, including adjustments to impairment losses, amortisation and depreciation, and is set out below.

	As at 30 June 2014		As at 31 December 2013	
	100% (Unaudited) HK\$'000	The Group's 50% share (Unaudited) HK\$'000	100% (Audited) HK\$'000	The Group's 50% share (Audited) HK\$'000
Non-current assets	<b>123,876</b>	<b>61,938</b>	130,700	65,350
Current assets	<b>118,778</b>	<b>59,389</b>	193,114	96,557
Current liabilities	<b>(91,376)</b>	<b>(45,688)</b>	(115,354)	(57,677)
Total equity	<b>151,278</b>	<b>75,639</b>	208,460	104,230

## 10. INTERESTS IN JOINT VENTURES *(continued)*

	Six months ended 30 June			
	2014		2013	
	100% (Unaudited) HK\$'000	The Group's 50% share (Unaudited) HK\$'000	100% (Unaudited) HK\$'000	The Group's 50% share (Unaudited) HK\$'000
Revenue	<b>343,550</b>	<b>171,775</b>	439,238	219,619
Expenses <i>(note)</i>	<b>(400,872)</b>	<b>(200,436)</b>	(440,228)	(220,114)
Loss for the period	<b>(57,322)</b>	<b>(28,661)</b>	(990)	(495)
Other comprehensive income for the period	–	–	–	–
Total comprehensive loss for the period	<b>(57,322)</b>	<b>(28,661)</b>	(990)	(495)
Distributions from joint venture	–	–	1,302	651

*Note: The amounts include cost of sales and all operating expenses.*

## 11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
<b>Trade receivables</b>	<b>9,403</b>	9,350
<b>Other receivables</b> Deposits, prepayments and other debtors	<b>8,162</b>	7,691
	<b>17,565</b>	17,041

## Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

**11. TRADE AND OTHER RECEIVABLES** (continued)

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 allowances for doubtful debts) with the following ageing analysis by invoice date:

	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
Less than 1 month	<b>6,395</b>	5,766
1 to 3 months	<b>1,777</b>	2,164
More than 3 months but less than 12 months	<b>1,231</b>	1,420
	<b>9,403</b>	9,350

**12. PLEDGED BANK DEPOSITS**

As at 30 June 2014, the Group had pledged bank deposits amounting to HK\$79,075,000 (31 December 2013: HK\$79,402,000). An amount of HK\$77,500,000 (31 December 2013: HK\$77,500,000) of the Group was pledged as bank deposits to collateralise a letter of credit issued to bank in respect of a banking facility granted to a subsidiary (note 14(a)). In addition, bank guarantees of HK\$1,575,000 (31 December 2013: HK\$1,902,000) of the Group were issued to suppliers for operational requirements.

**13. TRADE AND OTHER PAYABLES**

	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
<b>Trade payables</b>	<b>1,809</b>	2,229
<b>Other payables</b>		
Deferred revenue	<b>3,616</b>	3,390
Accrued charges and other creditors	<b>11,790</b>	11,868
Due to a joint venture	<b>2,059</b>	2,119
	<b>19,274</b>	19,606

The amount due to a joint venture is unsecured, interest-free and has no fixed term of repayment.

### 13. TRADE AND OTHER PAYABLES *(continued)*

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

	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
Less than 1 month	1,669	1,828
1 to 3 months	56	323
More than 3 months but less than 12 months	84	78
	<b>1,809</b>	2,229

### 14. BANK BORROWINGS

The bank loans are repayable as follows:

	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
<b>Bank loans due, secured:</b>		
Within one year	2,997	2,968
After one year but within two years	499	1,978
After two years but within five years	77,500	77,500
	<b>80,996</b>	82,446

## Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2014

**14. BANK BORROWINGS** (continued)

The bank loans are denominated in the following currencies:

	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
United States dollars (a)	<b>77,500</b>	77,500
Singapore dollars (b)	<b>3,496</b>	4,946
	<b>80,996</b>	82,446
<b>Reported as:</b>		
Current liabilities	<b>2,997</b>	2,968
Non-current liabilities	<b>77,999</b>	79,478
	<b>80,996</b>	82,446

(a) The loan bears an interest at a floating rate. The loan is collateralised by bank letter of credit supported by the Company and is repayable in August 2017.

(b) The loan requires monthly principal and interest payments over three years. The loan bears an interest at a floating rate and is secured by net assets of a subsidiary in Singapore. The loan is repayable in August 2015.



## 15. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these condensed consolidated financial statements, during the period, the Group had the following transactions with a related party:

	Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
<b>Nature of transactions</b>		
Management fee income	291	194
Distribution income	–	651
	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
<b>Outstanding balance</b>		
Due to a joint venture (note 13)	2,059	2,119

The above transactions related to a joint venture of the Group.

## 16. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, an unsecured term loan facility of US\$6 million (equivalent to HK\$46,500,000) was made available in favour of an indirect wholly-owned subsidiary of the Company (the "Borrower") by a company controlled by Mr. Richard John Siemens, the Chairman and a substantial shareholder of the Company. The unsecured term loan bears interest at 3% per annum and matures by 14 November 2015, when the full principal amount outstanding together with interest accrued thereon will become repayable.

A principal amount of US\$5 million was drawn down on 17 July 2014 and utilised by a direct wholly-owned subsidiary of the Borrower (the "Subsidiary") for a capital contribution to its joint venture. This amount due from the Subsidiary to the Borrower is unsecured, interest-free and has no fixed term of repayment.

# Report on Review of Interim Financial Statements



## 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 3 to 19, which comprise 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 2014, and the related condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and other 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 information. 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 with 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 to 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, 29 August 2014

### **Weatherseed, Stephen Peter Stuart**

Practising Certificate number: P05588

## Business Review and Outlook

### Overall Performance

During the period under review, the Group made further investments in its operating companies and its joint ventures as they continue to transform and diversify themselves into the higher growth business segments in their respective markets. While the Group's operating results achieved were in line with general expectations under their respective budgets, the diversification process has not yet reached a harvesting stage, as evidenced by the significant increase in the loss for the period and reduction in the net asset value of the Group reported for the period. Nevertheless, the Group believes that a meaningful return on investment can be delivered as long as we have the ongoing commitment and financial support to continue to execute on the respective business units' plans.

The Group's turnover for the period under review increased by 5.4% to HK\$38.6 million compared to HK\$36.6 million for the same period of 2013. ZONE Asia, represented by the Group's telecom operations in Singapore and Hong Kong, remained the major revenue contributor during this period. ZONE Asia has begun to reverse the downward trends in both its business units to record positive revenues and gross profit growth. The gross margin of the Group (as a percentage of its revenue), however, decreased slightly from 52.7% to 52.1%. The Group recorded a larger loss attributable to equity holders of the Company of HK\$39.8 million for the period under review as compared with a loss of HK\$11.2 million in the previous corresponding period mainly due to the increased loss incurred by its joint venture ANZ Communications LLC (ANZ), the Group's share of which was HK\$28.7 million compared to HK\$0.5 million for the prior period. The Group's net asset value decreased from HK\$178.4 million as at 31 December 2013 to HK\$137.3 million as at 30 June 2014.

### ANZ, USA

In the United States, turnover of ANZ decreased by 21.8% from HK\$439.2 million in the first six months of the prior year to HK\$343.6 million in the first half of 2014, mainly due to a drop in minutes of use as well as a decrease in the average unit rates of its traditional voice business. During the period under review, ANZ continued to invest significant resources into the new business of providing hosted Unified Communication (UC) solutions and cloud-based applications (Cloud Business) and this business segment has only recently started contributing towards ANZ's overall turnover. While still immaterial at this early roll-out stage, the contribution from ANZ's Cloud Business is expected to increase gradually in the coming periods. At the same time, in order to slow down the rate of revenue drop in the traditional voice business, various short to medium term measures are being implemented by ANZ to drive new demand as well as to broaden and entrench its voice product offerings to existing and new customers. In addition, various steps are also being taken to speed up the installation and provisioning processes so as to shorten the sales and fulfilment cycles of its Cloud Business.

Following detailed reviews of the various financing offers made to ANZ, its board members resolved in June, instead of pursuing other options, that a capital call of US\$5 million be made to each of the two voting members, Zone USA, Inc. and ANPI Holding, Inc., to fund the continuing development of ANZ's Cloud Business. The Group's capital contribution, which was in turn funded by a director loan, was made in July 2014, when a matching amount was injected by ANPI Holding, Inc.. As the development for ANZ's business requires funding beyond the capital contributions of US\$10 million already made by its voting members, the Group and its partner continue to source other funding alternatives, failing which further capital calls may be necessary at the appropriate times.

## **ZONE Telecom, Asia**

For the period under review, ZONE Asia recorded total turnover of HK\$37.9 million, a 5.6% increase as compared to HK\$35.9 million for the prior corresponding period. The revenue growth recorded from the non-IDD business for this period, particularly from the data and information technology business segments, has more than compensated for the decline in the traditional voice business. The strategy to transition the revenue mix from relying on usage-driven revenue to focusing on recurring revenue is showing encouraging results and, in the longer term, is expected to generate more sustainable revenue growth since a larger percentage of the new services have contract terms of between 12 to 24 months. The objective for ZONE Singapore and ZONE Hong Kong for the last half of this year is to increase market awareness, focus on acquisition of customers with sizable recurring telecom needs, and promote higher margin services.

## **RMI, Hong Kong**

During the period under review, RMI's proprietary platform for mass-market distribution of insurance-related products continued to enjoy strong support, both in Hong Kong and internationally. Following the successful launch of its over-the-counter products by RMI Canada in late 2013, RMI has proceeded with the launch of its CARE programme with the HKT Group, RMI's network partner and the leading telecom service provider in Hong Kong, to introduce the first "core" product, *BillProtector*, which provides HKT customers with bill payment coverage in the event of accident, sickness or involuntary loss of employment. The CARE programme is a proprietary initiative of RMI and will continue to be rolled out across more markets in the coming years, including upcoming launches in Thailand and Canada.

## **Outlook**

In the first half of 2014, ZONE Asia's rigorous marketing and customer acquisition activities to promote its services have begun to deliver some promising results. In the US, ANZ continues to make significant investments in the Cloud Business segment and, at the same time, focus on reducing the decline in revenue from its traditional voice businesses. Looking ahead to the next period, the Group will stay on its transformative course in pursuing and promoting new services and products that will generate higher margins and recurring revenue, both for its telecom and insurance-related businesses. While the Group has to date committed funding in support of its Asian businesses and ANZ's development of its Cloud Business, going forward it will require diligent scrutiny of the operating performance, growth potential and funding requirement of each of its business units and prioritise the allocation of its resources to optimise potential returns on shareholder investments and strengthen the financial position of the Group. At the same time, the Group will accelerate its pursuit of different fundraising and asset monetising initiatives to ensure it is well-resourced to meet its ongoing working capital requirements as well as invest in new growth opportunities.



## Financial Review

### Turnover and Results

The Group's turnover for the period amounted to HK\$38.6 million, representing an increase of 5.4% from the corresponding period in the prior year.

The overall gross margin of the Group for the period was 52.1%, compared to 52.7% for the first half of 2013. The gross profit for the period increased by 4.3% to HK\$20.1 million, compared to HK\$19.3 million for the previous corresponding period.

Total operating expenses of the Group for the period amounted to HK\$32.9 million or an increase of 7.5% over the same period in the prior year.

The operating loss of the Group for the period amounted to HK\$12.1 million, compared to a loss of HK\$10.2 million for the previous corresponding period.

The Group's share of results of joint ventures for the period amounted to a loss of HK\$28.7 million compared to a loss of HK\$0.5 million for the corresponding period in the prior year. The material increase in net loss was primarily a result of a decrease in revenue and margin contributions from ANZ's traditional voice business and increased sales, marketing and personnel costs relating to the roll-out of its new hosted solution services.

The consolidated loss attributable to equity holders of the Company for the period amounted to HK\$39.8 million, compared to a loss of HK\$11.2 million for the prior period.

### Interim Dividend

The Board does not recommend payment of a dividend for the six months ended 30 June 2014 (30 June 2013: Nil).

### Capital Structure, Liquidity and Financing

As at 30 June 2014, the net assets of the Group amounted to HK\$137.3 million compared to HK\$178.4 million as at 31 December 2013.

Capital expenditures for the period amounted to HK\$0.6 million mainly in respect of network and general office equipment enhancements in Singapore and Hong Kong.

Cash and bank balances (excluding pledged bank deposits) amounted to HK\$20.0 million as at 30 June 2014 (31 December 2013: HK\$32.8 million). As at 30 June 2014, HK\$77.5 million (31 December 2013: HK\$77.5 million) was pledged as bank deposits to collateralise a letter of credit issued to a bank in respect of a banking facility extended to a subsidiary. In addition, bank guarantees of HK\$1.6 million (31 December 2013: HK\$1.9 million) were issued to suppliers for operations requirements.



As at 30 June 2014, total bank borrowings of the Group amounted to HK\$81.0 million (31 December 2013: HK\$82.4 million), of which HK\$77.5 million (31 December 2013: HK\$77.5 million) as referred to above, is denominated in United States dollars equivalent to US\$10,000,000. The loan bears interest at a floating rate which is payable quarterly. The facility expires in August 2017, at which time the full amount outstanding is due and payable in United States dollars. The loan is collateralised by a bank letter of credit supported by the Company. The remaining balance of the bank borrowings of HK\$3.5 million (31 December 2013: HK\$4.9 million) is denominated in Singapore dollars. The loan and interest at a floating rate are repayable monthly in Singapore dollars over a period of three years. This loan, which was utilised for the acquisition of assets during 2012, is secured by the net assets of a subsidiary company.

The Group's gearing ratio, measured on the basis of total borrowings as a percentage of net assets was 59.0% (31 December 2013: 46.2%).

### **Foreign Exchange Exposure**

Since most of the Group's assets and liabilities are denominated in Hong Kong and United States dollars, the Group considers there are no significant exposures to foreign exchange fluctuations as long as the Hong Kong-United States dollar exchange rate remains pegged. Moreover, a substantial portion of the Group's revenue and payments are denominated in Singapore dollars. The Group continues to closely monitor the Singapore-Hong Kong dollar exchange rates and will, whenever appropriate, take appropriate action to mitigate such exchange risks. In this regard, as at 30 June 2014, no related currency hedges had yet been undertaken by the Group.

### **Contingent Liabilities and Commitments**

A joint venture is involved in certain legal actions and claims arising in the ordinary course of business, subject to which certain representations, warranties and indemnities have been provided by a subsidiary of the Company. Management believes that it is remote that the outcome of such litigation and claims will have a material effect on the Group's financial position.

Save as disclosed above, as at 30 June 2014, there were no material contingent liabilities or commitments and the directors are not aware of any other material changes from information disclosed in the Company's 2013 Annual Report.

## Additional Information

### Directors' Interests in Securities

As at 30 June 2014, 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 Rules Governing the Listing of Securities on the Stock Exchange (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	128,010,200 (Note 1)	24.6%
Jennifer Wes Saran	Personal	523,939	0.1%
	Held by controlled corporations	76,176,461 (Note 2)	14.6%
William Bruce Hicks	Personal	3,949,914	0.8%
	Held by a controlled corporation	67,962,428 (Note 3)	13.0%
Lim Shyang Guey	Personal	3,930,000	0.8%

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

Notes:

- 28,010,000 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.
- 76,176,461 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. Please refer to the paragraph titled "Shareholder Matter" about events after 30 June 2014.
- 67,962,428 Shares are beneficially owned by RDH Holdings Limited, a company controlled by Mr. William Bruce Hicks. Please refer to the paragraph titled "Shareholder Matter" about events after 30 June 2014.

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 2014.

Save as disclosed above, as at 30 June 2014, none of the directors or the chief executive of the Company (including their spouses and children under the age of 18) had any interests or short positions 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

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.

## Substantial Shareholders

As at 30 June 2014, 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.

<b>Name of shareholder</b>	<b>Number of Shares* held</b>	<b>Approximate percentage of shareholding</b>
Goldstone Trading Limited	100,000,200	19.2%
Future (Holdings) Limited	76,176,461	14.6%
Ganado Investments Corporation Ltd.	76,176,461	14.6%
RDH Holdings Limited	67,962,428	13.0%
Siemens Enterprises Limited	28,010,000	5.4%

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

The above interests represent the same interests as the corporate interests of Mr. Richard John Siemens (being held through Goldstone Trading Limited and Siemens Enterprises Limited), Mrs. Jennifer Wes Saran (being held through Future (Holdings) Limited and Ganado Investments Corporation Ltd.) and Mr. William Bruce Hicks (being held through RDH Holdings Limited). Please also refer to the paragraph titled "Shareholder Matter" about events after 30 June 2014.

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

Save as disclosed above, as at 30 June 2014, the Company was not notified of any persons, other than the directors and the chief executive of the Company, having any interests or short positions 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.

## Additional Information (continued)

### Corporate Governance

The directors of the Company are committed to maintaining high standards of corporate governance in performing 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 2014, acting in compliance with code provisions of the Corporate Governance Code and Corporate Governance Report (“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 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, as part of its written corporate policies, established and recorded in writing the respective responsibilities of the Chairman and the chief executive (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 of the Company since 16 June 2007. The Board from time to time re-assesses the possible negative impact of the Company deviating from Code Provision A.2.1 of the Corporate Governance Code, and believes that vesting the roles of both chairman and chief executive in the same person enables corporate planning and directing execution of business plans and growth strategies to be more effective. At the same time, it is believed that the balance of power and authority is adequately ensured by an effective Board which is comprised of experienced and high calibre individuals with the majority thereof being independent non-executive directors.

### Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules, as its own securities code. All directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standards set out in the Model Code throughout the six-month period ended 30 June 2014.

### Audit Committee

The Audit Committee reviewed, with management and the external auditor of the Company, the accounting principles and practices adopted by the Group and discussed / assessed all key auditing, internal controls and financial reporting matters, including a review of the unaudited interim consolidated financial statements of the Group for the six months ended 30 June 2014. The review conducted by the external 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.

## Employee Remuneration Policies

As at 30 June 2014, the Group had 79 (31 December 2013: 77) employees in China, Hong Kong and Singapore and its total staff costs for the six months ended 30 June 2014 were HK\$18.7 million (30 June 2013: HK\$18.1 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 employees.

## Environmental Awareness

Over the years, the Group has made considerable endeavours in reducing waste in the course of its operations. Since 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 the "Class of Excellence" Wastewi\$e Label for six consecutive years.

## Shareholder Matter

On 11 July 2014, the Board was notified by Mrs. Jennifer Wes Saran ("Mrs. Saran") and Mr. William Bruce Hicks ("Mr. Hicks"), then both directors and substantial shareholders of the Company, that Mrs. Saran, in her personal capacity and through Future (Holdings) Limited, a company controlled by her, disposed of 76,700,000 shares ("Shares") of HK\$0.01 each in the share capital of the Company to Costrade Group Limited (the "Purchaser"), which Shares represent approximately 14.7% of the existing issued share capital of the Company; and Mr. Hicks, in his personal capacity and through RDH Holdings Limited, a company controlled by him, disposed of 71,912,342 Shares to the Purchaser, which Shares represent approximately 13.8% of the existing issued share capital of the Company (collectively, the "Disposals"). Accordingly, in accordance with the register required to be kept by the Company under section 336 of the SFO or otherwise notified to the Company, the Purchaser, a company controlled by Mr. Chan Hing Ping ("Mr. Chan"), reports a long position in 148,612,342 Shares, representing approximately 28.5% of the existing issued share capital of the Company. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, immediately prior to the Disposals, the Purchaser and Mr. Chan are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

Additional Information (continued)

## Appreciation

Mr. Hicks and Mrs. Saran resigned as an Executive Director and a Non-executive Director of the Company, respectively, on 16 July 2014 in order to pursue other personal interests. Nevertheless, in the interim period and at the request of the Board, Mr. Hicks will continue to serve as a representative of the Group on the board of managers of ANZ Communications LLC. The Board would like to express its gratitude to Mr. Hicks and Mrs. Saran for their valuable contributions to the Company during their tenures in office. The Board would like to thank all our customers, shareholders, business associates and professional advisers for their continuous support and extends 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*

29 August 2014