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e-Kong Group Limited

(Incorporated in Bermuda with limited liability)

www.e-kong.com

(Stock Code: 524)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

HIGHLIGHTS FOR THE PERIOD

- The Group acquired the entire issued share capital of Diamond Frontier Investments Limited and its subsidiaries on 24 June 2016. Through the acquisition, the Group is expected to expand on its core business into the operation of provision of integrated financial payment processing solution services and distribution business through its e-Commerce platform.
- The Group's revenue for the period decreased by 17.5% to HK\$30.2 million compared to HK\$36.6 million for the prior period. The decline in revenue is mainly attributable to the slowdown in the voice and data business segments.
- Total operating expenses of the Group for the period amounted to HK\$53.6 million or an increase of 85.6% over the same period in the prior year. The substantial increase was mainly due to the increase in legal and professional fees for the various acquisitions and attempted acquisitions of investments and businesses and the increased office rental expenses.
- The deferred tax liability for the period increased to HK\$19.0 million compared to HK\$0.2 million for the prior period. The increase in deferred tax liability is mainly attributable to the applicable provisional fair value adjustments for intangible assets acquired arising from the acquisition of the entire issued share capital of Diamond Frontier Investments Limited and its subsidiaries.

RESULTS

The board (the "Board") of directors (the "Directors") 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 2016, together with comparative figures for the corresponding period in 2015. The results are unaudited but have been reviewed by the audit committee (the "Audit Committee" of the Company) and the external auditor of the Company.

Condensed Consolidated Statement of Profit or Loss

		Six months ended 30 June	
		2016	2015
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	2	30,173	36,586
Cost of sales		<u>(15,039)</u>	<u>(18,091)</u>
Gross profit		15,134	18,495
Other revenue and income	3	<u>6,701</u>	<u>1,142</u>
		21,835	19,637
Selling and distribution expenses		(2,431)	(3,332)
Business promotion and marketing expenses		(1,527)	(1,960)
Operating and administrative expenses		(42,989)	(20,902)
Other operating expenses		<u>(6,640)</u>	<u>(2,686)</u>
Loss from operations		(31,752)	(9,243)
Finance costs	4	(1)	(133)
Net gain on disposal of financial assets at fair value through profit or loss		393	–
Net decrease in fair value of financial assets at fair value through profit or loss		(7,959)	–
Gain on disposal of subsidiaries classified as held for sale		–	44,808
Gain on disposal of property, plant and equipment		4	3,798
Gain/(Loss) on disposal of a subsidiary	13	<u>821</u>	<u>(67)</u>
(Loss)/Profit before taxation	4	(38,494)	39,163
Taxation charges	5	<u>–</u>	<u>(9)</u>
(Loss)/Profit for the period		<u>(38,494)</u>	<u>39,154</u>
(Loss)/Profit for the period attributable to:			
Equity holders of the Company		(36,952)	40,385
Non-controlling interests		<u>(1,542)</u>	<u>(1,231)</u>
(Loss)/Profit for the period		<u>(38,494)</u>	<u>39,154</u>
		HK cents	HK cents
(Loss)/Earnings per share			
Basic and diluted	6	<u>(5.1)</u>	<u>7.5</u>

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(Loss)/Profit for the period	(38,494)	39,154
Other comprehensive income/(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	<u>628</u>	<u>(261)</u>
Total comprehensive (loss)/income for the period	<u>(37,866)</u>	<u>38,893</u>
Total comprehensive (loss)/income for the period attributable to:		
Equity holders of the Company	(36,324)	40,124
Non-controlling interests	<u>(1,542)</u>	<u>(1,231)</u>
Total comprehensive (loss)/income for the period	<u>(37,866)</u>	<u>38,893</u>

Condensed Consolidated Statement of Financial Position

		As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Goodwill	7	33,464	1,019
Interests in a joint venture		2,371	–
Property, plant and equipment		17,760	12,084
Intangible assets	8	95,814	8,329
Available-for-sale financial asset	9	7,800	–
Deferred tax assets	12	45	45
		<u>157,254</u>	<u>21,477</u>
Current assets			
Financial assets at fair value through profit or loss		66,832	51,054
Trade and other receivables	10	36,912	58,038
Pledged bank deposits		1,487	1,427
Cash held by a securities broker		11,611	26,817
Cash and bank balances		33,338	94,116
		<u>150,180</u>	<u>231,452</u>
Current liabilities			
Trade and other payables	11	88,288	23,824
Taxation payable		1,490	–
Obligation under a finance lease		42	–
		<u>89,820</u>	<u>23,824</u>
Net current assets		<u>60,360</u>	<u>207,628</u>
Total assets less current liabilities		<u>217,614</u>	<u>229,105</u>

Condensed Consolidated Statement of Financial Position *(continued)*

		As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
	<i>Notes</i>		
Non-current liabilities			
Deferred revenue		596	787
Deferred tax liabilities	<i>12</i>	18,977	230
Obligation under a finance lease		73	–
		19,646	1,017
NET ASSETS		197,968	228,088
Capital and reserves			
Share capital		7,294	7,294
Reserves		194,966	231,125
Equity attributable to equity holders of the Company		202,260	238,419
Non-controlling interests		(4,292)	(10,331)
TOTAL EQUITY		197,968	228,088

Notes to the Condensed Consolidated Interim Financial Statements

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 2015 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. REVENUE 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, financial payment processing solution and software development services, distribution business through e-commerce platform, and other operations, 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 financial assets at fair value through profit or loss, cash held by a securities broker and cash and bank balances. All liabilities are allocated to reportable segments other than corporate liabilities.

2. REVENUE 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 2016			
	Telecom- munication services (Unaudited) <i>HK\$'000</i>	Other operation (Unaudited) <i>HK\$'000</i>	Eliminations (Unaudited) <i>HK\$'000</i>	Consolidated (Unaudited) <i>HK\$'000</i>
Revenue				
External sales	29,175	998	–	30,173
Inter-segment sales	145	–	(145)	–
	<u>29,320</u>	<u>998</u>	<u>(145)</u>	<u>30,173</u>
Results				
Segment results	(2,519)	(2,524)	–	(5,043)
Finance costs	(1)	–	–	(1)
	<u>(2,520)</u>	<u>(2,524)</u>	<u>–</u>	<u>(5,044)</u>
Other operating income and expenses				<u>(33,450)</u>
Loss before taxation				<u>(38,494)</u>

Inter-segment sales are charged at prevailing market prices.

	Six months ended 30 June 2015			
	Telecom- munication services (Unaudited) <i>HK\$'000</i>	Other operation (Unaudited) <i>HK\$'000</i>	Eliminations (Unaudited) <i>HK\$'000</i>	Consolidated (Unaudited) <i>HK\$'000</i>
Revenue				
External sales	35,844	742	–	36,586
Inter-segment sales	145	–	(145)	–
	<u>35,989</u>	<u>742</u>	<u>(145)</u>	<u>36,586</u>
Results				
Segment results	43,516	(2,161)	–	41,355
Finance costs	(133)	–	–	(133)
	<u>43,383</u>	<u>(2,161)</u>	<u>–</u>	<u>41,222</u>
Other operating income and expenses				<u>(2,059)</u>
Profit before taxation				<u>39,163</u>

2. REVENUE AND SEGMENTAL INFORMATION (continued)

(a) By business segments (continued)

	As at 30 June 2016			Consolidated (Unaudited) HK\$'000
	Telecom- munication services (Unaudited) HK\$'000	Financial payment processing solution and software development services and distribution business (Unaudited) HK\$'000	Other operation (Unaudited) HK\$'000	
Assets				
Reportable segments	<u>30,267</u>	<u>143,558</u>	<u>5,014</u>	<u>178,839</u>
Unallocated assets				<u>128,595</u>
				<u>307,434</u>
Liabilities				
Reportable segments	<u>(12,910)</u>	<u>(42,639)</u>	<u>(10,235)</u>	<u>(65,784)</u>
Unallocated liabilities				<u>(43,682)</u>
				<u>(109,466)</u>
	As at 31 December 2015			
	Telecom- munication services (Audited) HK\$'000	Other operation (Audited) HK\$'000	Consolidated (Audited) HK\$'000	
Assets				
Reportable segments	<u>32,030</u>	<u>2,285</u>		<u>34,315</u>
Unallocated assets				<u>218,614</u>
				<u>252,929</u>
Liabilities				
Reportable segments	<u>(12,254)</u>	<u>(6,027)</u>		<u>(18,281)</u>
Unallocated liabilities				<u>(6,560)</u>
				<u>(24,841)</u>

(b) By geographical information

The Group generates its revenue from the Asia Pacific region. Its property, plant and equipment and intangible assets are located in the Asia Pacific region.

3. OTHER REVENUE AND INCOME

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income on bank deposits	2	28
Dividend income from financial assets at fair value through profit or loss	137	–
Management fee income	4,272	–
Others	2,290	1,114
	<u>6,701</u>	<u>1,142</u>

4. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/Profit before taxation is stated after charging the following:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Finance costs		
Interest on obligation under a finance lease	(1)	–
Interest on bank and other borrowings:		
– Bank loans	–	(29)
– Other loan from a related company	–	(104)
	<u>(1)</u>	<u>(133)</u>
Other items		
Amortisation of intangible assets	(956)	(971)
Depreciation of property, plant and equipment	(3,285)	(1,250)
Operating lease charges on premises	(12,788)	(1,828)

5. TAXATION CHARGES

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax		
Overseas income taxes	–	(9)

Hong Kong Profits tax has not been provided as the Group incurred a loss for taxation purposes for the six months ended 30 June 2016.

Hong Kong Profits Tax had not been provided for the six months ended 31 December 2015 as the Group's assessable profits for the period were wholly absorbed by unrelieved tax losses brought forward from previous years.

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.

6. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2016 is based on the consolidated loss attributable to equity holders of the Company of HK\$36,952,000 (30 June 2015: profit of HK\$40,385,000) and on the weighted-average number of shares of 729,400,000 (30 June 2015: 541,149,171) shares in issue during the period.

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

7. GOODWILL

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
At the beginning of the period/year	1,019	–
Additions (<i>note 15</i>)	33,464	1,019
Disposal (<i>note 13</i>)	(1,019)	–
	<u>33,464</u>	<u>1,019</u>
At the end of the period/year	33,464	1,019
Representing:		
Cost	33,464	1,019
Accumulated impairment losses	–	–
	<u>33,464</u>	<u>1,019</u>

8. INTANGIBLE ASSETS

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
Cost at the beginning of the period/year	18,404	19,432
Acquisition of a subsidiary (<i>note 15</i>)	88,032	–
Exchange adjustments	757	(1,028)
	<u>107,193</u>	<u>18,404</u>
Accumulated amortisation and impairment losses	(11,379)	(10,075)
	<u>95,814</u>	<u>8,329</u>

As at 31 December 2015, intangible assets related to development costs and customer contracts in respect of domain name registration, web/data hosting and other services.

As a result of the acquisition of a subsidiary, as set out in note 15 to the condensed consolidated financial statements, the Group acquired intangible assets including technical know-how of HK\$17,579,000, customer relationships of HK\$57,363,000 and software of HK\$13,090,000, respectively, which were recognised at their provisional fair value at the date of acquisition.

8. INTANGIBLE ASSETS (continued)

Technical know-how represents the know-how of operating a financial payment processing solution business, including but not limited to technical skills on a mature e-commerce payment platform developed for financial payment processing solution services. Technical know-how has a finite useful life and is amortised on a straight-line basis over its estimated economic useful life of 7 years.

Customer relationships represent the existing business relationships with the users of an e-commerce platform maintained by the Group. The customer relationships have a finite useful life and are amortised on a straight-line basis over the estimated economic useful lives of 5 years.

Software represents an e-commerce platform acquired that is exclusively used for the purpose of provision of financial payment processing solution and software development services. The software has a finite useful life and is amortised on a straight-line basis over 9 years.

9. AVAILABLE-FOR-SALE FINANCIAL ASSET

On 19 February 2016, the Group completed the First Tranche Investment with a subscription for new ordinary share capital of Thunder Power Hong Kong Limited (“TPHK”) which is principally engaged in the development of battery-powered electric vehicles, for USD1 million (equivalent to HK\$7,800,000). The Group is interested in 0.20% of the enlarged issued share capital of TPHK which is accounted for as an available-for-sale financial asset of the Group.

The available-for-sale financial asset does not have a quoted market price in an active market and its fair value cannot be reliably measured. Accordingly, the available-for-sale financial asset is stated at cost less impairment loss.

Pursuant to the Term Sheet, the Company and/or its designee(s) will have an option to invest for USD50 million to USD55 million in the Second Tranche Investment and will also have an option to invest for USD45 million in the Third Tranche Investment. For details, please refer to the announcements dated 15 February 2016 and 31 May 2016. The Company and/or its designee(s) may or may not proceed with the Second Tranche Investment and the Third Tranche Investment.

10. TRADE AND OTHER RECEIVABLES

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
Trade receivables	16,381	8,053
Other receivables		
Deposits, prepayments and other debtors	20,531	18,735
Refundable deposits paid for acquisition of investments	–	31,250
	20,531	49,985
	36,912	58,038

10. 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 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
Less than 1 month	13,137	4,661
1 to 3 months	1,879	2,462
More than 3 months but less than 12 months	1,365	930
	<u>16,381</u>	<u>8,053</u>

11. TRADE AND OTHER PAYABLES

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
Trade payables	8,291	2,855
Other payables		
Deferred revenue	3,397	3,384
Accrued charges and other creditors	76,600	17,585
	<u>88,288</u>	<u>23,824</u>

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

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
Less than 1 month	3,302	2,681
1 to 3 months	1,295	56
More than 3 months but less than 12 months	3,694	118
	<u>8,291</u>	<u>2,855</u>

12. DEFERRED TAXATION

The movements for the period/year in the Group's deferred tax assets and liabilities are as follows:

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
At the beginning of the reporting period	(185)	(306)
Acquisition of subsidiaries (<i>Note 15</i>)	(18,735)	–
Charge to profit or loss	–	98
Exchange adjustments	(12)	23
	<u>(18,932)</u>	<u>(185)</u>

Recognised deferred tax assets and liabilities at the end of the reporting period represent the following:

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
Tax losses	41	41
Depreciation allowances	(238)	(226)
Fair value adjustment	(18,735)	–
	<u>(18,932)</u>	<u>(185)</u>

The analysis of recognised deferred tax assets and liabilities, determined after appropriate offsetting, is as follows:

	As at 30 June 2016 (Unaudited) HK\$'000	As at 31 December 2015 (Audited) HK\$'000
Deferred tax assets to be recovered:		
Within 12 months	41	41
After 12 months	4	4
	<u>45</u>	<u>45</u>
Deferred tax liabilities to be settled:		
Within 12 months	(3,691)	(186)
After 12 months	(15,286)	(44)
	<u>(18,977)</u>	<u>(230)</u>
	<u>(18,932)</u>	<u>(185)</u>

During the period ended 30 June 2016, deferred tax liabilities mainly derived from fair value adjustments arising from the revaluation of intangible assets upon the acquisition of subsidiaries and deferred tax on accelerated tax depreciation (31 December 2015: deferred tax on accelerated tax depreciation).

13. DISPOSAL OF A SUBSIDIARY

On 30 June 2016, the Group disposed of 100% of its equity interest in Goldyard Finance Limited (“Goldyard”) to a company, which has a common director, for a cash consideration of HK\$1,700,000 (the “Goldyard Disposal”). Details of the Goldyard Disposal are set out as follows:

	(Unaudited) HK\$’000
Net liabilities disposed of:	
Other receivables	15
Cash and bank balances	5
Other payables	<u>(160)</u>
Net liabilities upon disposal	<u>(140)</u>
Goodwill derecognised (note 7)	1,019
Gain on disposal of a subsidiary	<u>821</u>
Consideration, satisfied by cash	<u><u>1,700</u></u>

Analysis of net outflow of cash and cash equivalents in respect of the Goldyard Disposal is as follows:

	(Unaudited) HK\$’000
Cash consideration	–
Cash and cash equivalents disposed	<u>(5)</u>
Net outflow of cash and cash equivalents	<u><u>(5)</u></u>

As at 30 June 2016, the cash consideration for the Goldyard Disposal amounted to HK\$1,700,000, which was unpaid and included in other receivables, was unsecured, interest-free and was received on 6 July 2016.

14. CHANGE IN OWNERSHIP INTERESTS IN A SUBSIDIARY THAT DOES NOT RESULT IN A LOSS OF CONTROL

On 16 June 2016, the Group completed the disposal of the Group’s 24.99% equity interest in Cyber Insurance Brokers Limited (“Cyber Insurance”), a non-wholly owned subsidiary of the Group, for an aggregate consideration of HK\$1,000,000 (the “Cyber Insurance Disposal”). After the completion of the Cyber Insurance Disposal, Cyber Insurance continues to be a non-wholly owned subsidiary of the Group and its financial position and results continue to be consolidated by the Group.

	(Unaudited) HK\$’000
Consideration received/receivable from non-controlling interests	1,000
Carrying amount of non-controlling interests disposed of	<u>(835)</u>
Difference recognised directly in capital reserve	<u><u>165</u></u>

In accordance with the sale and purchase agreement signed, the consideration was settled by cash of HK\$500,000 on 15 June 2016. The remaining HK\$500,000 would be settled, with the purchaser’s option to assign and transfer to the Group 25% issued share capital of AD MedLink Limited, which is controlled by the beneficial owner of the purchaser, before the end of September 2016. Such investment would be accounted for as associate of the Group.

15. ACQUISITION OF SUBSIDIARIES

On 24 June 2016, Stage Charm Limited (“Stage Charm”), a wholly-owned subsidiary of the Company, entered into a Sales and Purchase Agreement with Summer Beach International Limited, an independent third party. Pursuant to this agreement, Stage Charm agreed to purchase the entire issued share capital of Diamond Frontier Investments Limited (“Diamond Frontier”) and its subsidiaries (collectively, the “Diamond Frontier Group”), at a consideration of RMB80,000,000 (equivalent to HK\$94,172,000) (the “Diamond Frontier Acquisition”).

The principal activity of Diamond Frontier is investment holding, which owns a 90% equity interest of 杭州蘇頌科技有限公司 (Hangzhou Susong Technology Company Limited) (“Hangzhou Susong”), a company established in the People’s Republic of China (the “PRC”). Hangzhou Susong is principally engaged in the business of the provision of financial payment processing solution and software development services and distribution business through e-commerce platform. Hangzhou Susong held a 50% equity interest in the registered capital of 杭州芙蘇科技有限公司 (Hangzhou Fusu Technology Company Limited), a company established in the PRC, which is engaged in the business of research and development of technology information, and this has been recorded as an investment in a joint venture in the condensed consolidated financial statements.

As a result of the Diamond Frontier Acquisition, the Group is expected to expand its core business into the operation of provision of financial payment processing solution and software development services and distribution business through e-commerce platform.

The following summarises the consideration paid/payable and the values of the assets acquired and liabilities assumed at the date of acquisition:

	Provisional fair value (Unaudited) HK\$’000
Consideration:	
Cash paid/payable	<u>94,172</u>
	(Unaudited) HK\$’000
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Interests in joint venture	2,371
Intangible assets (<i>note 8</i>)	88,032
Trade and other receivables	10,384
Bank and cash balances	9,407
Trade and other payables	(22,515)
Taxation payable	(1,490)
Deferred tax liabilities	<u>(18,735)</u>
Total identifiable net assets	67,454
Non-controlling interests recognised	(6,746)
Goodwill arising on acquisition (<i>note 7</i>)	<u>33,464</u>
	<u>94,172</u>

15. ACQUISITION OF SUBSIDIARIES (continued)

(Unaudited)
HK\$'000

Net cash flow on acquisition of subsidiaries:

Net cash acquired from the subsidiaries

9,407

Cash consideration paid

(57,000)

(47,593)

At 30 June 2016, the unpaid portion of cash consideration for the Diamond Frontier Acquisition amounted to HK\$37,172,000, which is included in other payables and is unsecured, interest-free and payable on 30 December 2016.

In respect of the acquired subsidiaries, the fair value of trade and other receivables acquired included trade receivables with a fair value of HK\$8,649,000. The total gross contractual amount of the trade receivables is HK\$8,649,000, of which no balance is expected to be uncollectible.

The goodwill arising from the acquisition is attributable to the growth and profit potential as a result of benefiting from the growing demand in financial payment processing solution and software development services, and distribution business through e-commerce platform. None of the goodwill recognised is expected to be deductible for income tax purposes.

Since acquisition, the acquired business did not contribute any revenue or profit to the Group. If the business combination effected during the period had been taken up at the beginning of the period, the consolidated revenue and loss of the Group would have been approximately HK\$39,285,000 and HK\$33,805,000 respectively. **This proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is intended to be a projection of future results.**

The Group has chosen to measure the non-controlling interest at its proportionate interest in the identifiable assets and liabilities of the acquiree.

As at the date of this announcement, the Group has not finalised the fair value assessments of the acquiree's identifiable assets and liabilities as at the date of acquisition due to short period of time since the completion of the acquisition. The applicable fair values of the assets acquired and liabilities assumed and goodwill arising on acquisition stated above are on a provisional basis and may be subject to changes in future periods when the valuations performed by an independent valuer have been finalised.

INTERIM DIVIDEND

The Board does not recommend payment of a dividend for the six months ended 30 June 2016 (30 June 2015: Nil).

BUSINESS REVIEW AND OUTLOOK

Overview

During the period under review, the Group's revenue decreased by 17.5% to HK\$30.2 million compared to HK\$36.6 million for the prior period. The overall gross margin of the Group (as a percentage of its revenue) during the period amounted to 50.2% compared to that of the prior period of 50.6%.

Operating Businesses

ZONE Asia operations, comprising the Group's telecom operations in Hong Kong and Singapore, recorded total revenue of HK\$29.3 million during the period under review, which represents 97.0% of the Group's consolidated revenue for the same period. When compared to the ZONE Asia's revenue of HK\$35.9 million for the corresponding period in the prior year, it recorded an 18.4% decrease. The legacy voice business segment, both in Hong Kong and Singapore, recorded a further decline in revenue and margin mainly due to the loss of some key customers and also increased competition from other traditional service providers, and the customers' shift to using other data-centric communication apps and tools. The data connectivity business segment in Singapore was also facing increasingly competition from other broadband service providers in the market.

To mitigate the challenges on the voice and data business segments, ZONE remained focused on expanding its project-related revenue base in Hong Kong, including successfully securing certain sizeable contracts in Mainland China and Macau. In Singapore, ZONE continued with the strategy of accelerating the cloud business to capitalize on the growing market in the region. During the period, ZONE launched its e-commerce platform to facilitate online purchase of cloud services and to open an avenue towards the regional markets. ZONE Singapore also initiated a collaboration program targeted at channel partners to further expand its distribution channels to reach out to SMEs in Singapore.

During the period under review, RMI, the Group's insurance distribution operations, continued the execution of its expansion plan to market and distribute insurance-related products in Asia. In addition to focussing its efforts in rolling out its mass market distribution strategy, RMI is creating a partnership with a leading medical insurance and healthcare advisor, and also expanded its services into the growing health insurance sector targeting at SMEs and expatriates in Hong Kong.

BUSINESS REVIEW AND OUTLOOK *(continued)*

Operating Businesses *(continued)*

On 24 June 2016, the Group acquired all the issued shares of Diamond Frontier Investments Limited, an investment holding company which owns 90% of the equity interest of Hangzhou Susong Technology Company Limited (“Susong”). Susong is mainly engaged in the business of offering integrated financial payment processing solution, advertising and software development services to various vendors in China, including China Unicom, by providing the fundamental technology infrastructure. Through the long-term business cooperations, Susong has built strong client relationships and accumulated years of experience in e-Commerce payment solutions and big data from customers’ behavior and transactions completed which provide a solid foundation and valuable insights for the development of its own B2B online and offline commerce platform and distribution business. By connecting business to business, Susong generates revenue through online payment solution services, commissions on transactions and fees from value-added services.

Outlook

Looking ahead, the Board believes that the intensified market competition and global economic uncertainties will likely adversely affect the Group’s existing telecommunication and insurance business in the short term; however, through the newly acquired financial payment processing solution provider and its e-Commerce platform, the Group will be able to expand the client base, enhance the B2B e-Commerce platform and broaden its revenue stream by providing comprehensive and integrated financial payment processing solutions and innovative products and services.

While the Group will continue to serve its clients, expand its existing business and achieve organic growth, it will also actively pursue other investment opportunities in, among others, especially technology focused projects to prudently realign its business components and leverage its available resources so as to improve business performance, increase operational efficiency and realize business synergy.

FINANCIAL REVIEW

Revenue and Results

The Group’s revenue for the period amounted to HK\$30.2 million, representing a decrease of 17.5% from the corresponding period in the prior year.

The overall gross margin of the Group for the period was 50.2%, compared to 50.6% for the first half of 2015. The gross profit for the period decreased by 18.2% to HK\$15.1 million, compared to HK\$18.5 million for the previous corresponding period.

Total operating expenses of the Group for the period amounted to HK\$53.6 million or an increase of 85.6% over the same period in the prior year. The substantial increase was mainly due to the increase in legal and professional fees for the various acquisitions and attempted acquisitions of investments and businesses and the increased office rental expenses.

FINANCIAL REVIEW *(continued)*

Revenue and Results *(continued)*

The operating loss of the Group for the period amounted to HK\$31.8 million, compared to a loss of HK\$9.2 million for the previous corresponding period.

The Group completed the disposal of the entire shareholding of Goldyard Finance Limited on 30 June 2016. A one-off gain of approximately HK\$0.8 million was recorded by the Group in regards to the transaction. This is to compare with a gain of HK\$44.8 million contributed by the Group's gain on disposal of subsidiaries classified as held for sale for the first half of 2015.

The consolidated loss attributable to equity holders of the Company for the period amounted to HK\$37.0 million, compared to a profit of HK\$40.4 million for the prior period.

Capital Structure, Liquidity and Financing

As at 30 June 2016, the net assets of the Group amounted to HK\$198.0 million compared to HK\$228.1 million as at 31 December 2015.

Capital expenditures for the period amounted to HK\$8.9 million mainly in respect of network and general office equipment enhancements in Singapore and Hong Kong.

Cash and bank balances together with cash held by a securities broker (excluding pledged bank deposits) amounted to HK\$44.9 million as at 30 June 2016 (31 December 2015: HK\$120.9 million). As at 30 June 2016, HK\$1.5 million (31 December 2015: HK\$1.4 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\$1.5 million (31 December 2015: HK\$1.4 million) were issued to suppliers for operations requirements.

The Group had no bank borrowings as at 30 June 2016 and 31 December 2015. As at 30 June 2016, the Group had total obligations under a finance lease amounted to HK\$0.1 million (31 December 2015: Nil).

As at 30 June 2016, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of net assets was 0.1% (31 December 2015: 0%).

Foreign Exchange Exposure

Most of the Group's assets and liabilities are denominated in Hong Kong dollars ("HKD") and Renminbi ("RMB"), while a substantial portion of the Group's revenue and payments are denominated in Singapore dollars ("SGD"). The Group continues to closely monitor the SGD, HKD and RMB exchange rates and will, whenever appropriate, take appropriate action to mitigate such exchange risks. In this regard, as at 30 June 2016, no related currency hedges had yet been undertaken by the Group.

FINANCIAL REVIEW (continued)

Contingent Liabilities and Commitments

As at 30 June 2016, 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 2015 Annual Report.

Significant Investments Held and Performance

As at 30 June 2016, the Group held investments in securities in Hong Kong (collectively, the "Investments") with a market value of HK\$66.8 million (31 December 2015: HK\$51.1 million), representing an investment portfolio of nine (31 December 2015: seven) listed equities in Hong Kong. The Group recorded unrealized fair value losses and a realized gain on disposal of HK\$8.0 million and HK\$0.4 million (year ended 31 December 2015: HK\$6.9 million of unrealized fair value losses and HK\$5.2 million of realized loss on disposal) in respect of investment in listed securities held for trading as at 30 June 2016. The significant loss was caused by the extraordinary upheaval in the PRC stock market and the pressure from the economic slowdown in the PRC itself and the global economy. The details of the Investments as at 30 June 2016 are as follows:

	Company name	Stock code	Number of shares held	% of shareholdings in equity investment	Realised (loss) gain for the period HK\$'000	Unrealised gain (loss) on fair value change for the period HK\$'000	Cost of acquisition HK\$'000	Fair value as at 30 June 2016 HK\$'000	% of net assets	Principal activities
1	Modern Land (China) Co., Ltd.	01107	1,362,000	0.07%	(467)	(114)	2,542	2,152	1.09%	Real estate development, property investment, hotel operation, project management, real estate agency services and immigration services in the PRC and the United States.
2	China Baoli Technologies Holdings Ltd. (formerly known as REX Global Entertainment Holdings Ltd.)	00164	33,150,000	0.10%	581	37	8,019	7,558	3.82%	Entertainment and cruise ship business, property business, gamma ray irradiation services, resources business and securities trading and investment.
3	Sincere Watch (Hong Kong) Ltd.	00444	30,450,000	0.73%	-	(12,332)	27,913	12,637	6.38%	Distribution of branded luxury watches, timepieces and accessories in Hong Kong, Macau, Taiwan and the PRC.

FINANCIAL REVIEW (continued)

Significant Investments Held and Performance (continued)

	Company name	Stock code	Number of shares held	% of shareholdings in equity investment	Realised (loss) gain for the period HK\$'000	Unrealised gain (loss) on fair value change for the period HK\$'000	Cost of acquisition HK\$'000	Fair value as at 30 June 2016 HK\$'000	% of net assets	Principal activities
4	King Stone Energy Group Ltd.	00663	545,000	0.01%	–	20	138	135	0.07%	Mining and selling of coal and silver, oil and gas extraction and production, oil extraction technology research and development and provision of finance leasing.
5	Noble Century Investment Holdings Ltd.	02322	2,064,000	0.28%	–	2,491	6,240	10,526	5.32%	Vessel chartering businesses
6	BEP International Holdings Ltd.	02326	4,400,000	0.02%	–	(968)	7,919	1,892	0.96%	Sale of home electrical appliances, electronic products and related plastic injection components, distribution and sale of electronic consumer products and sourcing and sale of computer and related products.
7	Tech Pro Technology Development Ltd.	03823	4,790,000	0.07%	461	3,455	8,690	12,023	6.07%	Manufacture and sale of LED lighting products and accessories, energy efficiency projects and provision of property sub-leasing and management services.
8	Casablanca Group Ltd.	02223	1,700,000	0.66%	–	(1,683)	5,576	3,893	1.97%	Manufacture and trading of home textile products and accessories.
9	Blue Sky Power Holdings Ltd.	06828	26,256,000	0.31%	–	1,135	14,881	16,016	8.09%	Sales and distribution of natural gas and other related products; sales of book products; and sales of specialised products.
					575	(7,959)	81,918	66,832		
	Other fee and commission expenses				(182)					
					393					

During the year, the Group received HK\$0.1 million of dividend from the securities held.

FINANCIAL REVIEW *(continued)*

Significant Investments Held and Performance *(continued)*

In the first half of 2016, the Hang Seng Index dropped from 21,327.12 points on 4 January 2016 to 20,794.37 points as at 30 June 2016 for a number of reasons, including the extraordinary upheaval in the PRC stock market and the pressure from the economic slowdown in the PRC itself and the global economy. During the period, there are also increased volatilities in various sectors. The Group recorded unrealized fair value losses of HK\$8.0 million in respect of investments in listed securities held for trading as at 30 June 2016.

The Board acknowledges that the performance of the equities may be affected by the degree of volatility in the Hong Kong stock market and susceptible to other external factors that may affect their values. Accordingly, in order to mitigate possible financial risks related to the equities, the Board maintains a diversified investment portfolio across various segments of the market and also closely monitors the performance of its investment portfolio.

EMPLOYEE REMUNERATION POLICIES

As at 30 June 2016, the Group had 121 (31 December 2015: 82) employees in China, Hong Kong and Singapore and its total staff costs for the six months ended 30 June 2016 were HK\$21.9 million (30 June 2015: HK\$17.3 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.

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 2016, acting in compliance with code provisions (the "Code Provisions") of the Corporate Governance Code and Corporate Governance Report (the "Corporate Governance Code") as set out in Appendix 14 to the Listing Rules.

The 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 (the "Chairman") and the chief executive officer 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 chief executive, being undertaken by the managing director, of the Company, is delegated with the authority and responsibility for overseeing the realisation of the budgets and objectives set by the Board.

CORPORATE GOVERNANCE *(continued)*

Mr. Yeung Chun Wai Anthony has been appointed as the chief executive officer of the Company since 13 July 2015. The Board from time to time re-assesses the possible 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. In addition, the Board believes 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 half 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 (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 months ended 30 June 2016.

AUDIT COMMITTEE

The Audit Committee has reviewed, with management and the external auditor of the Company, the accounting principles and practices adopted by the Group and the unaudited interim consolidated financial report of the Group for the six months ended 30 June 2016. 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.

PUBLICATION OF FURTHER INFORMATION

The 2016 Interim Report of the Company containing all information required by Appendix 16 to the Listing Rules will be published on both the websites of Hong Kong Exchanges and Clearing Limited and the Company in due course.

By Order of the Board
Yeung Chun Wai Anthony
Chairman

Hong Kong, 26 August 2016

As at the date of this announcement, the Board of the Company comprises Mr. Yeung Chun Wai, Anthony, Mr. Chan Chi Yuen, Mr. Wong Xiang Hong and Mr. Yeung Chun Sing Standly as executive Directors; and Mr. Chan Chiu Hung, Alex, Mr. Fung Chan Man, Alex and Mr. Chan Fong Kong, Francis as independent non-executive Directors.