



ORIGINAL

Woodland Falls Corporate Park
200 Lake Drive East, Suite 200
Cherry Hill, NJ 08002
Phone: 856-667-2550 • Fax: 856-667-2551
www.ZoneLD.com

03 0463-TX

May 22, 2003

RECEIVED FPSC
03 MAY 29 AM 10:00
COMMISSION CLERK

Florida Public Service Commission
Division of the Commission Clerk and Administrative Services
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Zone Telecom, Inc. Application to Provide Alternative Local Exchange Service

Dear Sir or Madam:

Enclosed please find an original and seven copies of our application to provide Alternative Local Exchange Service within the state of Florida.

Also enclosed is the appropriate non-refundable application fee in the amount of \$250.00.

Kindly acknowledge receipt of this filing by returning, file stamped, the extra copy of this cover letter in the self addressed stamped envelope provided for that purpose.

Questions regarding this filing may be directed to Jill Papenhausen at (856) 414-6892 or (813) 843-9857.

RECEIVED & FILED

Th
FPSC-BUREAU OF RECORDS

Sincerely,

Michael G. Bonaventure

Michael G. Bonaventure, CPA
Accounting Manager

Check received with filing and forwarded to Fiscal for deposit. Fiscal to forward deposit information to Records.

Initials of person who forwarded check

gm

03 MAY 29 AM 9:40
DISTRIBUTION CENTER
DOCUMENT NUMBER-DATE
04786 MAY 29 03
FPSC-COMMISSION CLERK

ORIGINAL

APPLICATION

1. This is an application for (check one):

Original certificate (new company).

Approval of transfer of existing certificate: Example, a non-certificated company purchases an existing company and desires to retain the original certificate of authority.

Approval of assignment of existing certificate: Example, a certificated company purchases an existing company and desires to retain the certificate of authority of that company.

Approval of transfer of control: Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. **Name of company:**

Zone Telecom, Inc.

3. **Name under which the applicant will do business (fictitious name, etc.):**

Zone Telecom, Inc.

4. **Official mailing address (including street name & number, post office box, city, state, zip code):**

Woodland Falls Corporate Center
200 Lake Drive East, Suite 200
Cherry Hill, New Jersey 08002

5. Florida address (including street name & number, post office box, city, state, zip code):

CT Corporation System
1200 South Pine Island Road
Plantation, Fl 33324

6. Structure of organization:

- | | |
|--|---|
| <input type="checkbox"/> Individual | <input checked="" type="checkbox"/> Corporation |
| <input type="checkbox"/> Foreign Corporation | <input type="checkbox"/> Foreign Partnership |
| <input type="checkbox"/> General Partnership | <input type="checkbox"/> Limited Partnership |
| <input type="checkbox"/> Other | |

7. If individual, provide:

N/A – Zone Telecom, Inc.'s business structure type is a corporation

Name:

Title:

Address:

City/State/Zip:

Telephone No.: _____ Fax No.:

Internet E-Mail Address:

Internet Website Address:

8. If incorporated in Florida, provide proof of authority to operate in Florida:

N/A –Zone Telecom, Inc. was incorporated in the State of Delaware during June 2000.

(a) **The Florida Secretary of State corporate registration number:**

9. **If foreign corporation, provide proof of authority to operate in Florida:**

SEE ATTACHED EXHIBIT 1

(a) The Florida Secretary of State corporate registration number:
F00000004136

10. **If using fictitious name-d/b/a, provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:**

N/A – No fictitious name-d/b/a is being used by Zone Telecom, Inc.

(a) The Florida Secretary of State fictitious name registration number:

11. **If a limited liability partnership, provide proof of registration to operate in Florida:**

N/A – Zone Telecom, Inc.'s business structure type is a corporation

(a) The Florida registration number:

12. **If a partnership, provide name, title and address of all partners and a copy of the partnership agreement.**

N/A – Zone Telecom, Inc.'s business structure type is a corporation

Name:

Title:

Address:

City/State/Zip:

Telephone No.: _____ Fax No.:

Internet E-Mail Address:

Internet Website Address:

13. If a foreign limited partnership, provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.

N/A – Zone Telecom, Inc.'s business structure type is a corporation

(a) The Florida registration number:

14. Provide F.E.I. Number(if applicable):

04-3520968

15. Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(a) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. Provide explanation.

None

(b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

None

16. Who will serve as liaison to the Commission with regard to the following?

(a) The application:

Name: Jill Papenhausen

Title: Director of Legal & Regulatory

Address: Woodland Falls Corporate Center – 200 Lake Drive East, Suite 200

City/State/Zip: Cherry Hill, New Jersey 08002

Telephone No.: (813)843-9857 or (856)414-6836 Fax No.: (561)495-4287

Internet E-Mail Address: jpapenhausen@zonecms.com

Internet Website Address: www.ZoneLD.com

(b) Official point of contact for the ongoing operations of the company:

Name: Terry Metzger

Title: Vice-President

Address: Woodland Falls Corporate Center – 200 Lake Drive East, Suite 200

City/State/Zip: Cherry Hill, New Jersey 08002

Telephone No.: (856)414-6904 Fax No.: (856)414-6957

Internet E-Mail Address: tmetzger@zonecms.com

Internet Website Address: www.ZoneLD.com

(c) Complaints/Inquiries from customers:

Name: Kathy Crusemire

Title: Service Operations Manager

Address: Woodland Falls Corporate Center – 200 Lake Drive East, Suite 200

City/State/Zip: Cherry Hill, New Jersey 08002

Telephone No.: Residential 1-(866)333-9633 Fax No. 1-(856)414-6925
Corporate 1-(866)539-9663 Fax No. 1-(856)414-6925

Internet E-Mail Address: kcrusemire@zonecms.com

Internet Website Address: www.ZoneLD.com

17. List the states in which the applicant:

(a) has operated as an alternative local exchange company.

N/A –Zone Telecom, Inc. has not operated as an ALEC in any state previously.

(c) has applications pending to be certificated as an alternative local exchange company.

N/A – Florida is the only application at this time being submitted for approval.

(c) is certificated to operate as an alternative local exchange company.

Rhode Island

(d) has been denied authority to operate as an alternative local exchange company and the circumstances involved.

None

(e) has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

None

(f) has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

None

18. Submit the following:

18. Submit the following:

- A. **Managerial capability: give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.**

SEE ATTACHED EXHIBIT 2

- B. **Technical capability: give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.**

SEE ATTACHED EXHIBIT 3

C. Financial capability.

The application **should contain** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

SEE ATTACHED EXHIBIT 4

The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer affirming that the financial statements are true and correct and should include:

N/A –Audited Financial Statements have been included with this application for ALEC.

1. the balance sheet:
2. income statement: and
3. statement of retained earnings.

NOTE: *This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.*

Further, the following (which includes supporting documentation) should be provided:

1. **written explanation** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

Response:

Zone presently has a strong long distance revenue stream tied to Florida operations, as well as to operations nationwide. Zone expects to grow that revenue stream and to use it to further fund its Florida operations. Moreover, through its parent company, e-Kong Group Limited, a publicly traded company in Hong Kong, Zone has access to capital markets and can raise money as needed to fund its Florida operations.

2. **written explanation** that the applicant has sufficient financial capability to maintain the requested service.

Response:

The same financial capability that was available in Zone Telecom, Inc.'s IXC application (001515-TI) is available.

3. **written explanation** that the applicant has sufficient financial capability to meet its lease or ownership obligations.

Response:

Zone Telecom is presently a certificated IXC in Florida and has the financial capability to meet its lease and ownership obligations

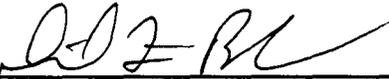
THIS PAGE MUST BE COMPLETED AND SIGNED

APPLICANT ACKNOWLEDGMENT STATEMENT

- 1. REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of \$50 is required.
- 2. APPLICATION FEE:** I understand that a non-refundable application fee of \$250.00 must be submitted with the application.

UTILITY OFFICIAL:

Derrick Bulawa

ⓧ 

Print Name

Signature

President / CEO

May 22, 2003

Title

Date

(856)414-6916

(856)414-6932

Telephone No.

Fax No.

Address: Woodland Falls Corporate Center – 200 Lake Drive East, Suite 200
Cherry Hill, New Jersey 08002

THIS PAGE MUST BE COMPLETED AND SIGNED

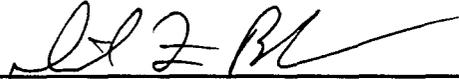
AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."

UTILITY OFFICIAL:

Derrick Bulawa

(x) 

Print Name

Signature

President / CEO

May 22, 2003

Title

Date

(856)414-6916

(856)414-6932

Telephone No.

Fax No.

Address: Woodland Falls Corporate Center – 200 Lake Drive East, Suite 200
Cherry Hill, New Jersey 08002

INTRASTATE NETWORK (if available)

Chapter 25-24.825 (5), Florida Administrative Code, requires the company to make available to staff the alternative local exchange service areas only upon request.

1. **POP:** Addresses where located, and indicate if owned or leased.

N/A – Zone Telecom, Inc. does have any POP Addresses

1) _____ 2)

3) _____ 4)

2. **SWITCHES:** Address where located, by type of switch, and indicate if owned or leased.

N/A – Zone Telecom, Inc. does not have any Switch Addresses

1) _____ 2)

3) _____ 4)

3. **TRANSMISSION FACILITIES:** POP-to-POP facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased.

N/A – Zone Telecom, Inc. does not have any Transmission Facilities

POP-to-POP

OWNERSHIP

1) _____

2) _____

3) _____

4) _____

CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT

N/A –There is no sale, transfer or assignment taking place.

I, (Name)
(Title) _____ of (Name of Company)

and current holder of Florida Public Service Commission Certificate Number #
_____, have reviewed this application and join in the petitioner's request for a:

- () sale
- () transfer
- () assignment

of the above-mentioned certificate.

UTILITY OFFICIAL:

Print Name

Signature

Title

Date

Telephone No.

Fax No.

Address:

Exhibit 1



FLORIDA DEPARTMENT OF STATE
Katherine Harris
Secretary of State

July 24, 2000

C T CORPORATION SYSTEM
TALLAHASSEE, FL

Qualification documents for ZONE TELECOM, INC. were filed on July 24, 2000 and assigned document number F00000004136. Please refer to this number whenever corresponding with this office.

Your corporation is now qualified and authorized to transact business in Florida as of the file date.

A corporation annual report/uniform business report will be due this office between January 1 and May 1 of the year following the calendar year of the file date. A Federal Employer Identification (FEI) number will be required before this report can be filed. If you do not already have an FEI number, please apply NOW with the Internal Revenue by calling 1-800-829-3676 and requesting form SS-4.

Please be aware if the corporate address changes, it is the responsibility of the corporation to notify this office.

Should you have any questions regarding this matter, please telephone (850) 487-6051, the Foreign Qualification/Tax Lien Section.

Buck Kohr
Corporate Specialist
Division of Corporations

Letter Number: 400A00040282

**APPLICATION BY FOREIGN CORPORATION FOR AUTHORIZATION TO TRANSACT
BUSINESS IN FLORIDA**

IN COMPLIANCE WITH SECTION 607.1503, FLORIDA STATUTES, THE FOLLOWING IS SUBMITTED TO REGISTER A FOREIGN CORPORATION TO TRANSACT BUSINESS IN THE STATE OF FLORIDA.

00 JUL 24 PM 1:59

1. Zone Telecom, Inc.
(Name of corporation; must include the word "INCORPORATED", "COMPANY", "CORPORATION" or words or abbreviations of like import in language as will clearly indicate that it is a corporation instead of a natural person or partnership if not so contained in the name at present.)
2. Delaware 3. 04-3520968
(State or country under the law of which it is incorporated) (FEI number, if applicable)
4. 06/13/2000 5. Perpetual
(Date of incorporation) (Duration: Year corp. will cease to exist or "perpetual")
6. Upon qualification
(Date first transacted business in Florida.) (SEE SECTIONS 607.1501, 607.1502 and 817.155, F.S.)
7. 279 Harvard St., #21, Cambridge, MA 02139

(Current mailing address)

8. See Attachment
(Purpose(s) of corporation authorized in home state or country to be carried out in state of Florida)

9. **Name and street address of Florida registered agent:** (P.O. Box or Mail Drop Box **NOT** acceptable)
- Name: C T Corporation System
- Office Address: 1200 South Pine Island Road
Plantation, Florida, 33324
(Zip code)

10. Registered agent's acceptance:

Having been named as registered agent and to accept service of process for the above stated corporation at the place designated in this application, I hereby accept the appointment as registered agent and agree to act in this capacity. I further agree to comply with the provisions of all statutes relative to the proper and complete performance of my duties, and I am familiar with and accept the obligations of my position as registered agent. C T Corporation System

By: *Cornie Bryan*
(Registered agent's signature)
Cornie Bryan, Special Asst. Secy.

11. Attached is a certificate of existence duly authenticated, not more than 90 days prior to delivery of this application to the Department of State, by the Secretary of State or other official having custody of corporate records in the jurisdiction under the law of which it is incorporated.

12. Names and addresses of officers and/or directors: (Street address **ONLY** - P.O. Box **NOT** acceptable)

A. DIRECTORS (Street address only - P.O. Box NOT acceptable)

Chairman: See attached rider

Address: _____

Vice Chairman: _____

Address: _____

Director: _____

Address: _____

Director: _____

Address: _____

00 JUL 24 PM 1:59
OFFICE OF THE CLERK
STATE OF CALIFORNIA

B. OFFICERS (Street address only - P.O. Box NOT acceptable)

President: See attached rider

Address: _____

Vice President: _____

Address: _____

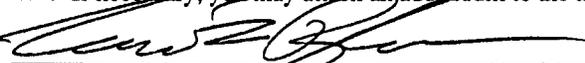
Secretary: _____

Address: _____

Treasurer: _____

Address: _____

NOTE: If necessary, you may attach an addendum to the application listing additional officers and/or directors.

13. 

(Signature of Chairman, Vice Chairman, or any officer listed in number 12 of the application)

14. Lawton Bloom, Vice President

(Typed or printed name and capacity of person signing application)

Addendum to

Florida Application for Certificate of Authority

Item 8: (Purpose clause)

To engage in the telecommunications business. Notwithstanding the foregoing the purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized to do business under the laws of the State of Florida.

00 JUN 24 PM 1:59
STATE OF FLORIDA
DEPARTMENT OF REVENUE

Exhibit 2

EXHIBIT 2 (resume 1 of 2)

Derrick F. Bulawa

Resume

WORK EXPERIENCE

1999-present **Zone Telecom, Inc**

Reseller of domestic and international long distance telecommunications services with internet functional integration

President/CEO

1995 – 1999 **UNIFI COMMUNICATIONS**

UNIFI Communications developed businesses in the world's 12 top telecom markets for the purpose of providing outsourced Internet fax and messaging services integrated with the Internet.

(1998 – 1999) **Chief Operating Officer (COO)**

(1995 – 1998) **President, North Asia**

1995 - 1995 **PACIFIC CENTURY GROUP**

Pacific Century Group was Asia's first company to provide leased and switched satellite-based communications on a pan-Asian basis in direct competition with the major Asian telecom monopolies. (Pacific Century Group was also founded by Mr. Richard Li)

Senior Technical Advisor

1991 - 1995 **STAR TV (Satellite Television Asian Region)**

STAR TV is Asia's first regional satellite television company providing direct-to-home entertainment to 170 million viewers across 53 countries.

(1993 - 1995) **General Manager - Satellite & Technical Operations**

(1991 - 1993) **Vice President - Technical Operations**

05/22/03

1985 - 1991 GTE SPACENET, CA., USA

Derrick originally joined Equatorial Communications Inc. in 1985, after which the company was acquired by Contel ASC. In 1990, Contel was in turn acquired by GTE Spacenet Inc. Each of these companies had major telecommunications network development contracts with Asian governments, military organizations and private companies.

(1990 - 1991) **Technical Marketing Manager**

(1989 - 1990) **Network Engineering Manager**

(1986 - 1989) **Network Engineer**

(1985 - 1986) **Senior Network System Specialist**

EDUCATION

**1985 DEVRY INSTITUTE OF TECHNOLOGY,
COLUMBUS, OHIO, USA**

Bachelor of Science in Electronics Engineering Technology

EXHIBIT 2
(resume 2 of 2)

Name: **Terry Metzger**
Address: 405 Hancock Drive
Mullica Hill, NJ 08062
Telephone: (856) 478.9739
E-mail: tgmetzger2@comcast.net

Professional Experience

Vice President of Finance

Zone Telecom, Cherry Hill, NJ. Zone Telecom is a subsidiary of The e-Kong Group (publicly traded on the Hang Seng – 524) a *Distacom holding*. *Feb '02 – Current*

- Executive representative for accounting, collections, billing, human resources, legal and regulatory affairs. Zone Telecom is a FCC licensed, national, long-distance telecom company.

Chief Financial Officer & Vice President of Finance

Madacom SA, a *Distacom Company*, Antananarivo, Madagascar *Oct '99 – Feb '02*

- Executive administrator for the finance, purchasing, and information technology departments. Madacom is a GSM cellular telephone company in the Republic of Madagascar.

Senior Budget Director

Spice Telecom, a *Distacom Company*, Bangalore, India *Aug '99 - Oct '99*

- Executive administrator of the year 2000 budget process for Spice Telecom.

Rooms Division Director

Inverness Hotel & Golf Club, Denver, CO *May '97 - Aug '99*

- Executive administrator for the Rooms Division of a 305-room conference center golf resort including five departments with over 100 employees.

Director, Central Reservations

Amfac Parks & Resorts, Denver, CO *Nov '95 - May '97*

- Executive administrator for the Amfac Central Reservations Office. Amfac is a contractor for the *United States National Park Service* including the *Grand Canyon* and *Yellowstone National Parks*.

Project Director

Hotel Sofitel International, New York, NY/Paris, France *May '94 - Nov '95*

- Responsible for five Project Managers and one Project Coordinator for a Yield Management/Reservation Sales Task Force operating in seven hotels in North America and 35 hotels in Western Europe spanning 11 countries.

Rooms Manager/Front Office Manager

Hotel Sofitel International, Chicago, IL *Aug '90 - May '94*

Front Office Manager

Grosvenor Resort at Walt Disney World Village, Orlando, FL *Jun '88 - Jul '90*

- Responsible for three departments, designed and implemented operational budgets, including weekly and monthly accountability systems for 636-room hotel.

Education

Master of Business Administration

Regis University, Denver, CO

Concentrations: Finance & Executive

Graduated with Honors

Bachelor of Science, Business Administration

Regis University, Denver, CO

Concentrations: International Business and Accounting

Personal Interests

Golf, skiing, and travel

Exhibit 3

EXHIBIT 3
(resume 1 of 1)

Executive Biography – Robbin Wells, Chief Technical Officer (CTO)

Robbin Wells is the CTO of Zone Telecom, Inc.

Robbin Wells joined e-KONG Group Ltd. (the parent company of Zone Telecom, Inc.) as Vice President of Technology in October 1999. He has over 21 years of experience in the computer and telephony industry. He has extensive experience developing IP networks in North America, Europe, and Asia.

Robbin was previously employed as Head of Technology for UNIFI Communications. UNIFI was a first generation IP messaging company that achieved a revenue growth of 4000% over five years. During 1997 INC Magazine recognized UNIFI Communications as the 20th fastest growing private company on the INC 500 list in the US. Robbin was the system architect and technical lead for their global IP based messaging and telecommunications network with over 1000 IP platforms in fifteen countries. He served as Senior Technical Advisor for a 120-member R&D department focusing on IP and Internet centric products. Robbin acted as a liaison between R&D and worldwide Operations and was responsible for initial network infrastructure design and deployment.

Prior to UNIFI, Robbin worked for Prime Computer as a principal engineer in the CAD/CAM division and Small Systems group. He was a technical lead in the development of the user interface management system (UIMS) for Prime Design. Prime Design was a parametric 3^d solid modeling system used to develop engines and suspension systems by the automotive industry. Prime Designs' UIMS was one of the first commercial products on the market to utilize Object Oriented technology.

Robbin was the Chief Engineer for W. F. Wood Corp. during the late 70's and early 80's. He was responsible for manufacturing and production automation. W. F. Wood Corp. was one of the early US based companies to use first generation manufacturing automation technologies. Robbin developed an integrated system to assist engineers in generating Numerical Control programs. This reduced the time to go from blue print to production by 50%. He also developed a plant-wide system that allowed real-time job tracking and cost accounting.

Exhibit 4

Zone USA, Inc. and Subsidiaries

**Consolidated Financial Statements as of and for
the year ended December 31, 2002**

Zone USA, Inc. and Subsidiaries
Table of Contents
December 31, 2002

	Page (s)
Report of Independent Accountants	1
Consolidated Financial Statements:	
Consolidated Balance Sheet as of December 31, 2002	2
Consolidated Statement of Operations for the Year Ended December 31, 2002	3
Consolidated Statement of Changes in Stockholder's Equity for the Year Ended December 31, 2002	4
Consolidated Statement of Cash Flows for the Year Ended December 31, 2002	5
Notes to Consolidated Financial Statements	6 - 10

Report of Independent Accountants

To the Stockholder of
Zone USA, Inc.:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, changes in stockholder's equity and cash flows present fairly, in all material respects, the financial position of Zone USA, Inc. and its subsidiaries at December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on those financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully described in Note 1, the Company has incurred a net loss and negative cash flows from operations, but expects these results to improve in 2003. The Company's plans for providing liquidity during 2003 are also set forth in Note 1.

PricewaterhouseCoopers LLP

February 24, 2003

Zone USA, Inc. and Subsidiaries
Consolidated Balance Sheet
December 31, 2002

Assets

Current assets:	
Cash and cash equivalents	\$ 1,626,427
Accounts receivable, net of allowance for doubtful accounts of \$360,251	3,070,056
Prepaid expenses	<u>316,648</u>
Total current assets	5,013,131
Fixed assets, net	13,798,817
Other assets	<u>211,734</u>
Total assets	<u>\$ 19,023,682</u>

Liabilities and Stockholder's Equity

Current liabilities:	
Accounts payable	\$ 2,784,602
Accrued liabilities	2,719,575
Due to Parent (Note 7)	653,779
Capital lease obligations, current portion	<u>72,202</u>
Total current liabilities	6,230,158
Capital lease obligations	106,394
Loan from Parent (Note 7)	<u>6,943,463</u>
Total liabilities	<u>13,280,015</u>

Commitments and contingencies (Note 6)

Stockholder's Equity

Common stock, 1,000 shares at \$.01 par value authorized, issued and outstanding	10
Additional paid-in capital	35,000,990
Accumulated deficit	<u>(29,257,333)</u>
Total stockholder's equity	<u>5,743,667</u>
Total liabilities and stockholder's equity	<u>\$ 19,023,682</u>

The accompanying notes are an integral part of these consolidated financial statements.

Zone USA, Inc. and Subsidiaries
Consolidated Statement of Operations
For the Year Ended December 31, 2002

Revenue	\$ 22,751,792
Cost of revenues	<u>16,420,048</u>
Gross profit	6,331,744
Salary expense	5,073,591
General and administrative expense	5,026,949
Selling and marketing expense	4,604,999
Depreciation and amortization expense	<u>2,037,058</u>
Loss from operations	(10,410,853)
Interest expense, net	<u>369,765</u>
Loss before income taxes	(10,780,618)
Provision for income taxes	<u>2,646</u>
Net loss	<u><u>\$(10,783,264)</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

Zone USA, Inc. and Subsidiaries
Consolidated Statement of Changes in Stockholder's Equity
For the Year Ended December 31, 2002

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Deficit</u>	<u>Total</u>
			<u>Capital</u>		
Balance at December 31, 2001	1,000	\$ 10	\$ 4,753,425	\$(18,474,069)	\$(13,720,634)
Capital contributions from parent	-	-	30,247,565	-	30,247,565
Net loss	-	-	-	(10,783,264)	(10,783,264)
Balance at December 31, 2002	<u>1,000</u>	<u>\$ 10</u>	<u>\$ 35,000,990</u>	<u>\$(29,257,333)</u>	<u>\$ 5,743,667</u>

The accompanying notes are an integral part of these consolidated financial statements.

Zone USA, Inc. and Subsidiaries
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2002

Cash flows from operating activities:	
Net loss	\$(10,783,264)
Adjustments to reconcile net loss to net cash used in operating activities	
Bad debt expense	762,526
Depreciation and amortization	2,037,058
Changes in operating assets and liabilities	
Accounts receivable	(1,273,963)
Prepaid expenses and other assets	251,110
Accounts payable	(1,646,437)
Accrued expenses	<u>(1,508,392)</u>
Net cash used in operating activities	(12,161,362)
Cash flows from investing activities:	
Purchase of fixed assets	<u>(938,640)</u>
Net cash used in investing activities	(938,640)
Cash flows from financing activities:	
Capital contributions from parent	13,682,799
Repayment of amounts due to related party	(699,096)
Repayment on capital leases	<u>(54,186)</u>
Net cash provided by financing activities	12,929,517
Net change in cash and cash equivalents	(170,485)
Cash and cash equivalents at beginning of period	<u>1,796,912</u>
Cash and cash equivalents at end of period	<u>\$ 1,626,427</u>
Supplementary disclosures of cash flow information:	
Cash paid for interest	\$ 198,224
Cash paid for taxes	90,961
Non-cash investing and financing activities:	
Conversion of intercompany debt to equity	\$ 16,564,766
Acquisition of equipment under capital leases	35,677
Equipment purchases included in accounts payable	287,078

The accompanying notes are an integral part of these consolidated financial statements.

Zone USA, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2002

1. Principles of Consolidation and Business

Principles of Consolidation

The consolidated financial statements include the accounts of Zone USA, Inc. ("Zone"), its wholly owned subsidiary, Zone Telecom, Inc., and its indirect wholly owned subsidiary ZT Real Estate LLC, (collectively referred to as the "Company"). This Company is a wholly owned subsidiary of e-Kong Group, Ltd. ("Parent").

All significant intercompany balances and transactions have been eliminated.

Business

The Company is a reseller of telecommunication long distance services and generally utilizes the Sprint Communications Company, AT&T, Global Crossing and Qwest Communications networks. The Company also has switching capabilities and carries both domestic and international long distance traffic on its telecommunications switches for certain customer applications.

Zone has incurred losses since being acquired by e-Kong Ltd. and has an accumulated deficit of \$29,257,333 at December 31, 2002. While the Company has historically generated a gross profit, it continues to use cash in operating activities and generate losses from operations. The Company used \$12,161,362 in operations for the year ended December 31, 2002.

Under a loan facility agreement with the Parent, the Company has the ability to borrow an additional \$1.1 million at December 31, 2002 (Note 7). While the Company does not expect to borrow up to the remaining \$1.1 million, the Parent has represented to the Company that it will fund working capital and capital expenditure needs of the Company through 2003, should such funding be required. The Company expects to generate sufficient cash flows from working capital and future operations to support its capital needs.

2. Summary of Significant Accounting Policies

Revenue Recognition

The Company recognizes revenues from its customer when services are provided. The Company's customers are billed on a monthly basis.

Advertising

The costs of advertising, promotion and marketing programs are charged to operations in the year incurred. Advertising expense was \$174,026 for the year ended December 31, 2002.

Use of Estimates

The use of generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Zone USA, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2002

Cash and Cash Equivalents

Included in cash and cash equivalents are short-term investments and other highly liquid instruments having an initial maturity of ninety days or less.

Fixed Assets

Equipment, furniture and fixtures are depreciated for financial reporting purposes using the straight-line method over the estimated useful lives of the assets that range from three to seven years. Leasehold improvements are amortized over the lesser of their estimated useful lives or the life of the related lease. When assets are sold, retired or otherwise disposed of, the cost and related accumulated depreciation are removed from their respective accounts, and any resulting gains and losses are recorded in the consolidated statements of operations. Repairs and maintenance are charged to expense as incurred.

Income Taxes

Taxes on income are determined in accordance with the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109), which requires the use of the asset and liability method in accounting for income taxes, whereby deferred tax balances are recorded based on the difference between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, using the enacted tax rates in effect for the year in which the differences are expected to reverse.

A full valuation allowance for deferred income tax assets has been established since the Company believes based on recurring losses from operations that it is more likely than not that the deferred income tax assets will not be realized. The net operating loss carryforward has a carryforward period of 20 years and will begin to expire in 2020.

3. Fixed Assets

Fixed assets at December 31, 2002 consist of the following:

	Useful Life	
Leasehold improvements	7	\$ 91,063
Furniture and fixtures	5	49,180
Computer and communications equipment	3	5,241,138
Equipment under capital lease	5	312,909
Network hardware	5	<u>12,193,917</u>
		17,888,207
Less accumulated depreciation and amortization		<u>(4,089,390)</u>
		<u>\$13,798,817</u>

Depreciation and amortization expense was \$2,037,058 for the year ended December 31, 2002.

Zone USA, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2002

4. Capital Lease Obligations

The Company has capital lease obligations at December 31, 2002 totaling \$178,596. The interest rates on the leases range from 8% to 8.33%. The Company recorded \$15,076 in interest expense for the year ended December 31, 2002, in connection with their capital lease obligations.

The aggregate amount of minimum future lease payments at December 31, 2002, under capital lease obligations are as follows:

Years	
2003	\$ 83,659
2004	57,743
2005	57,743
Thereafter	<u>-</u>
Total minimum payments	199,145
Less interest	<u>(20,549)</u>
Present value of minimum lease payments	178,596
Less current portion	<u>72,202</u>
	<u><u>\$ 106,394</u></u>

5. Income Taxes

The provision for income taxes for the year ended December 31, 2002 was \$2,646 and consists of alternative minimum taxes for some states in which the Company operates. Due to taxable losses, there is no provision for federal income taxes.

Differences between income tax expense at the U.S. federal statutory income tax rate and the Company's effective income tax rate for the year ended December 31, 2002 is as follows:

Tax at federal statutory rate	\$ (3,666,310)
State income taxes, net of federal benefit	1,747
Permanent differences	13,119
Change in valuation allowance	<u>3,654,090</u>
Total provision	<u><u>\$ 2,646</u></u>

Zone USA, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2002

Deferred income taxes are recorded based upon differences between financial statement and tax bases of assets and liabilities. The following deferred income taxes were recorded at December 31, 2002:

Current:	
Accounts receivable reserved	\$ 139,777
Accrued liabilities	275,847
Total current deferred income tax asset	<u>415,624</u>
Long-term:	
Fixed assets	103,943
Tax basis intangible assets	1,515,199
Net operating loss carryforward	9,479,364
Other	32,413
Total long-term deferred income tax asset	<u>11,130,919</u>
Valuation allowance	<u>11,546,543</u>
Net deferred income tax asset	<u>\$ -</u>

6. Commitments and Contingencies

Operating Leases

The Company has operating leases related to office space and equipment. Rent expense amounted to \$949,531 for the year ended December 31, 2002.

The aggregate amount of minimum future lease payments at December 31, 2002, which have remaining non-cancelable lease terms in excess of one year in each of the next five years, is as follows:

2003	\$ 745,928
2004	753,709
2005	509,879
2006	164,900
Thereafter	-

The Company has renewal options under some of these leases for periods ranging from 1 year to 5 years.

Zone USA, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2002

7. Related Party Transactions

During 2002, the Company concluded several related party transactions. e-Kong Group, Ltd. made capital contributions totaling \$13,682,799 in 2002. Additionally, e-Kong Group, Ltd. determined that it would no longer require repayment of certain intercompany payables in the amount of \$16,564,766. These amounts have been reclassified as equity in 2002.

On March 15, 2002, the Company also entered into a revolving loan facility with e-Kong Group, Ltd. which allows the Company to borrow up to \$8,000,000 in the first two years of the agreement. As of December 31, 2002, the Company has \$6,943,463 of outstanding borrowings under this facility and recorded \$203,182 as interest expense for the year ended December 31, 2002. The interest rate on the debt is calculated at 7.0% per annum.

The Company has \$653,779 recorded at December 31, 2002 as an amount due to e-Kong Group, Ltd. Certain assets of the Company are used as collateral against borrowings by e-Kong Group, Ltd. e-Kong Group, Ltd. has required these borrowings to be paid by the Company. The balance outstanding represents remaining payments owed by the Company. Full payment of these amounts is expected in 2003. The Company recorded \$75,894 as interest expense for the year ended December 31, 2002.

8. Concentration of Credit Risk

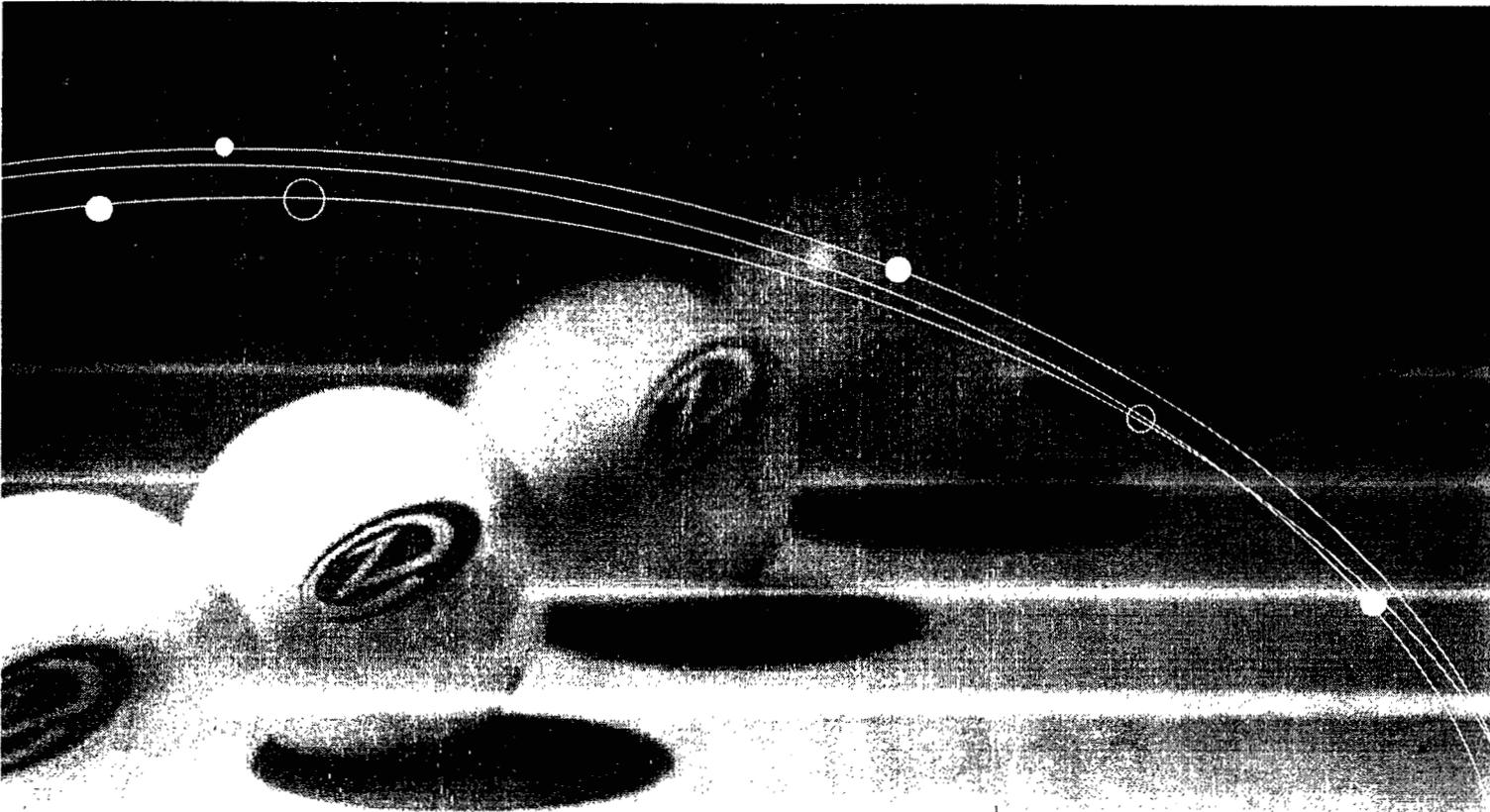
The Company maintains a centralized cash management program whereby its cash balances are deposited with high-credit quality financial institutions. At times, cash balances in the Company's accounts may exceed federally insured limits. Credit risk related to trade receivables is limited due to the wide variety of customers to which the Company's services are sold, as well as their dispersion across many different geographic areas.

9. Litigation

The Company is involved in various lawsuits, claims and proceedings of a nature considered normal to its business. In the opinion of management, the ultimate resolution of these claims will not have a materially adverse effect on the results of operations or the financial position of the Company. The Company's financial statements include all known costs incurred to date related to its various lawsuits and does not include any potential favorable settlements of outstanding matters. Amounts accrued for litigation matters are recorded within accounts payable and accrued liabilities.

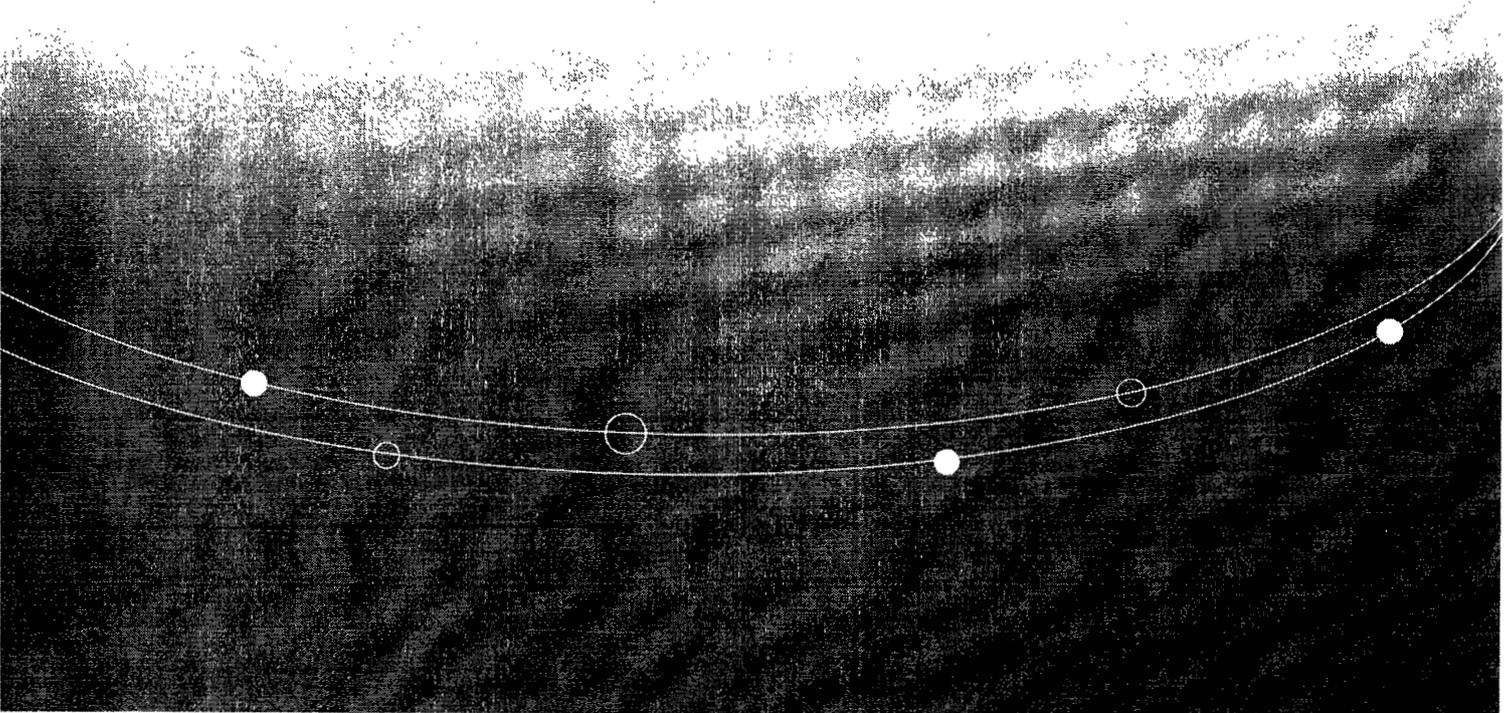
10. Defined Contribution Benefit Plan

The Company sponsors a 401K defined contribution benefit plan. Participation in the plan is available to substantially all employees. Company contributions to the plan are based on a percentage of the employee's contributions not to exceed certain maximum levels. The Company's contribution to the plan was \$75,961 for the year ended December 31, 2002.



Annual Report 2002

e-K_港NG



e-KONG Group Limited

Contents

Corporate Information	2
Chairman's Statement	3
Business Review and Outlook	4
Management Discussion and Analysis	6
Directors' Report	8
Directors' Profile	21
Auditors' Report	23
Consolidated Income Statement	24
Consolidated Balance Sheet	25
Balance Sheet	26
Consolidated Statement of Changes in Equity	27
Consolidated Cash Flow Statement	28
Notes to the Financial Statements	29
Summary of Results, Assets and Liabilities of the Group	65
Notice of Annual General Meeting	67



e-KONG Group Limited

Corporate Information

Annual Report 2002

BOARD OF DIRECTORS

Executive Directors

Mr. Richard John Siemens (*Chairman*)
Mr. Kuldeep Saran
Mr. Derrick Francis Bulawa
Mr. Lim Shyang Guey

Non-Executive Directors

Mr. William Bruce Hicks
Mr. Shane Frederick Weir
Mr. Matthew Brian Rosenberg

AUDIT COMMITTEE

Mr. Shane Frederick Weir
Mr. Matthew Brian Rosenberg

COMPANY SECRETARY

Ms. Wang Poey Foon, Angela

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

Room 4101-5
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

SOLICITORS

Angela Wang & Co.
Conyers, Dill & Pearman

AUDITORS

Moores Rowland
Chartered Accountants
Certified Public Accountants

SHARE REGISTRARS

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRARS

Secretaries Limited
G/F Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

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

WEBSITE

www.e-kong.com

STOCK CODE

0524

e-KONG Group Limited

Chairman's Statement

At the beginning of 2002, e-Kong Group Limited (the "Company", together with its subsidiaries collectively referred to as the "Group") made a strategic decision to focus its efforts and resources on building and growing its ZONE operations into the core operating business. During the year, the ZONE business in the United States, Hong Kong and Singapore have each developed into a sustainable and scalable businesses.

ZONE Hong Kong and ZONE Singapore ("ZONE Asia") achieved their goal of making a positive contribution towards the cashflow of the Group in 2002 in a very competitive environment.

The improved performance by the ZONE business was the key driver for the Group's better operating results for 2002. Revenue from the ZONE business increased by 33.2% to HK\$298.5 million compared with HK\$224.2 million for the previous year. The increase in turnover, higher gross margins and lower operating costs within the Group, reduced the EBITDA loss from HK\$218.1 million in 2001 to HK\$109.1 million in 2002.

ZONE US's operating results continue to improve. The revenue grew by 56.3%, increasing from HK\$113.6 million in 2001 to HK\$177.5 million, while operating losses were reduced from HK\$96.9 million in 2001 to HK\$81.7 million in 2002. The Group remains optimistic about delivering sustainable revenue growth and improvement in the operating performance of ZONE US in the year 2003.

The management teams for ZONE US and ZONE Asia will focus on operating and growing the businesses to support the Group's goal of achieving positive EBITDA result in 2003. Continuing to reduce operating costs, and maintaining diligent financial control to improve its operational productivity, will remain important priorities for each of these business units.

The Company will continue to implement key corporate initiatives to enhance corporate governance with the objective of increasing shareholders' value and improving transparency. The remuneration, share option and executive management committees, established by the Board to oversee specific aspects of the Company's affairs, have contributed towards achieving the Group's strategic, corporate and business goals.

The Group remains positive about the prospect for growth and improvements in the operating results in 2003. The Group's primary goal for 2003 would be to achieve sustainable increase in the Group's turnover, improve operational efficiency and to attain a positive EBITDA for the Group.

On behalf of the board of directors, I wish to thank our business associates, shareholders and customers for their support and also acknowledge our appreciation for the contribution and dedication of the Group's employees in a competitive business environment.

Richard John Siemens

Chairman

Hong Kong, 10 April 2003

e-KONG Group Limited

Business Review and Outlook

Annual Report 2002

During the year under review, the Group continued its strategic focus on building and growing the ZONE telecommunications business. Revenue from the ZONE business increased by 33.2% to HK\$298.5 million compared with HK\$224.2 million for the previous year. Through sustainable growth of the ZONE business in the United States, Hong Kong and Singapore, combined with prudent financial control and operational efficiencies, the Group was able to achieve further improvement in its operating results.

The ZONE operation in the United States recorded a revenue growth of 56.3%, increasing from HK\$113.6 million in 2001 to HK\$177.5 million. The operating loss for ZONE US reduced by 15.7% from HK\$96.9 million for the previous year to HK\$81.7 million. Its ZoneLD service targeted at residential customers and small businesses continued to increase its subscriber base mainly as a result of customers acquired through its on-line partners. Continued growth is expected to be derived mainly from the ZoneCMS service which is targeted at the enterprise and corporate customers.

In 2002, ZONE Hong Kong and ZONE Singapore collectively accounted for 38.2% of the Group's revenue and achieved positive EBITDA (Earnings before Interest, Taxation, Depreciation and Amortisation). Turnover for ZONE Hong Kong and ZONE Singapore, collectively, increased by 9.5% compared with the previous year from HK\$110.6 million to HK\$121.1 million.

Improvements in the operating result for ZONE Hong Kong was achieved mainly through increase in operating gross margins, reduction in customer churn and further operational efficiency gains. Looking ahead, ZONE Hong Kong will continue to improve its business performance through targeted sales and marketing initiatives, regular customer retention programs and the introduction of value-added services including fax to e-mail, international call forwarding, short messaging services (SMS) and calling card products aimed at niche markets.

ZONE Singapore achieved sustained growth in its customer base and revenue despite intense competition. ZONE Singapore was successful in securing arrangements with key carrier partners to provide high quality service at competitive price. This has resulted in an increase in the gross margin and has also enabled ZONE Singapore to competitively price its services to the business segment of the market.

Following the divestment of the Group's interest in the event management-related business in January 2003, the revenue contribution from the non-telecom businesses will continue to be less significant in the coming year. In 2002, the revenue derived from the non-telecom subsidiaries was HK\$18.2 million, representing 5.8% of the Group's total revenue.

e-KONG Group Limited

Business Review and Outlook *(Cont'd)*

Despite extremely competitive and difficult economic market conditions the Group has managed to record continuous revenue growth in and steady improvements to its operating results in 2002. The Group's key business focus in 2003 would be to continue its revenue growth while keeping tight financial and operational discipline with the objective of achieving positive EBITDA. The Group will focus on increasing its sales and marketing efforts, improving customer retention and introducing additional innovative value-added services in order to improve ZONE's operating results.

e-KONG Group Limited

Management Discussion and Analysis

Annual Report 2002

FINANCIAL RESULTS

The Group's turnover for the year increased by 20% to HK\$316.7 million compared with HK\$263.9 million in 2001. The ZONE telecommunications business continues to be the main revenue growth driver of the Group.

The gross profit increased by 80% from HK\$49.9 million in 2001 to HK\$89.8 million. The gross profit as a percentage of turnover increased from 18.9% for 2001 to 28.3% for 2002 mainly due to the ZONE business being able to negotiate better pricing with the telecommunications carriers.

With the increase in turnover, higher gross margins and lower operating costs within the Group, EBITDA loss improved from HK\$218.1 million for 2001 to HK\$109.1 million for 2002.

The operating loss for the year was HK\$156 million compared with HK\$252.8 million for the previous year. Consolidated net loss attributable to shareholders declined to HK\$186.3 million from HK\$681.3 million. Non-recurring losses for the year, including the provision for diminution in value of investment securities of HK\$28 million, were HK\$31.1 million compared with HK\$427.3 million in 2001.

FINANCIAL RESOURCES, LIQUIDITY AND GEARING RATIO

The Company completed a rights issue of 235,447,100 rights shares of HK\$0.01 each at a price of HK\$0.12 per rights share in December 2002 immediately after the Capital Reorganisation as mentioned below and raised net proceeds of approximately HK\$25 million. The net proceeds are being used as general working capital for the Group's existing telecommunication business.

The Group relied on its internal resources, including the net proceeds from the rights issue, to fund its operations during the year.

Bank balances and cash (excluding pledged deposits) were HK\$31.1 million as at 31 December 2002 (2001: HK\$111.3 million). The Group had pledged deposits amounting to HK\$7.7 million as at 31 December 2002 (2001: HK\$7.1 million). The Group had no bank borrowings during the year.

As at 31 December 2002, the Group's liabilities under equipment lease financing amounted to HK\$7.4 million (2001: HK\$16.3 million).

As at 31 December 2002, the net assets of the Group amounted to HK\$196.4 million (2001: HK\$357.3 million). The Group's gearing ratio, measured on the basis of total borrowings as a percentage of net assets, was 3.8% (2001: 4.6%).

FOREIGN EXCHANGE RISKS

Since most of the Group's assets and liabilities, revenue and payments are denominated in Hong Kong dollars and United States dollars, the Group considers that there is no significant exposure to foreign exchange fluctuations so long as the Hong Kong-United States dollar exchange rate remains pegged.

CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2002, there were no material contingent liabilities and commitments.

CAPITAL REORGANISATION

In November 2002, the Company completed a capital reorganisation exercise implemented by means of capital reduction, share consolidation, share premium cancellation and share subdivision. As a result, immediately prior to the rights issue exercise in December 2002, the issued share capital of the Company was divided into 235,447,100 shares of HK\$0.01 each from 4,708,942,008 shares of HK\$0.02 each and a total amount of HK\$1,288,062,660 arising from the capital reduction and the share premium cancellation were applied towards the elimination of the Company's accumulated losses and the balance thereof credited to the contributed surplus account of the Company. In addition, each board lot of shares in the Company was changed from 4,000 shares of HK\$0.02 each to 10,000 shares of HK\$0.01 each after the capital reorganisation.

EMPLOYEE REMUNERATION POLICY

As at 31 December 2002, the Group had 214 employees (2001: 226 employees) in Hong Kong and overseas.

The Group's remuneration policies are in line with local market practices where the Group operates and are formulated on the basis of the performance and experience of individual employee. In addition to salary payment, the Group also offers to its employees other fringe benefits including provident fund and medical benefits.

e-KONG Group Limited

Directors' Report

Annual Report 2002

The board of directors (the "Board") of the Company is pleased to present its report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of its principal subsidiaries are set out in note 10 to the financial statements.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and results by principal business activities and geographical area of operations for the year ended 31 December 2002 is set out in note 25 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 24.

The Board of the Company did not recommend the payment of any dividend for the year ended 31 December 2002 (2001: Nil).

GROUP FINANCIAL SUMMARY

A summary of results, assets and liabilities of the Group for the last five financial years is set out on pages 65 and 66.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the aggregate turnover attributable to the five largest customers of the Group accounted for approximately 5% of the Group's total turnover for the year, and sales to the largest customer included therein amounted to approximately 3%.

The aggregate purchases attributable to the five largest suppliers accounted for approximately 48% of the Group's total purchases for the year, and purchases from the largest supplier included therein amounted to approximately 19%.

At any time during the year, neither the directors of the Company, their associates, nor those shareholders which to the knowledge of the directors own more than 5% of the Company's share capital, had any interest in the five largest customers and suppliers.

e-KONG Group Limited

Directors' Report (Cont'd)

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and of the Group during the year are set out in note 9 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 20 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Richard John Siemens (*Chairman*)
Mr. Kuldeep Saran
Mr. Derrick Francis Bulawa
Mr. Lim Shyang Guey

Non-executive directors:

Mr. William Bruce Hicks
Mr. Shane Frederick Weir*
Mr. Matthew Brian Rosenberg*

* *Independent Non-executive Directors*

In accordance with the bye-law 87 of the Company's Bye-laws, Mr. Derrick Francis Bulawa and Mr. Lim Shyang Guey shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

e-KONG Group Limited

Directors' Report *(Continued)*

Annual Report 2002

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2002, the directors and their respective associates had the following interests in the issued share capital of the Company or its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Section 28 of the SDI Ordinance or the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") or as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance.

Name of director	Number of ordinary shares of HK\$0.01 each held		
	Personal interests	Corporate interests	Total interests
Mr. Richard John Siemens	–	100,631,627 <i>(notes 1 and 2)</i>	100,631,627
Mr. William Bruce Hicks	2,319,914 <i>(note 1)</i>	67,962,428 <i>(notes 1 and 3)</i>	70,282,342
Mr. Kuldeep Saran	341,200 <i>(note 1)</i>	67,632,428 <i>(notes 1 and 4)</i>	67,973,628
Mr. Shane Frederick Weir	10,000 <i>(note 1)</i>	–	10,000

Notes:

1. The number of shares was adjusted as a result of capital reorganisation and rights issue in November and December 2002, as detailed in note 18 to the financial statements, respectively.
2. 2,400,000 shares are beneficially owned by Siemens Enterprises Limited, a company controlled by Mr. Richard John Siemens. 98,231,627 shares are beneficially owned by Goldstone Trading Limited, a company controlled by Mr. Siemens.
3. 67,962,428 shares are beneficially owned by Great Wall Holdings Limited, a company controlled by Mr. William Bruce Hicks.
4. 67,632,428 shares are beneficially owned by Future (Holdings) Limited, a company controlled by Mr. Kuldeep Saran.

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

Save as disclosed above, none of the directors, the chief executive and/or any of their associates had any interests in the shares or debt securities of the Company or any of its associated corporations (as defined in the SDI Ordinance) as at 31 December 2002 pursuant to the SDI Ordinance and the Model Code.

e-KONG Group Limited

Directors' Report (Cont'd)

ARRANGEMENT TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

In accordance with the Old Share Option Scheme which particulars are further described under the heading of "Share Option Schemes" below, other than 7,751,850 share options granted to directors which were cancelled, there were no share options granted, exercised, cancelled and lapsed during the year.

Details of movements in share options granted to directors and eligible employees under the Old Share Option Scheme during the year and their share options remaining outstanding as at 31 December 2002 were as follows:

Director	Date of grant	Exercisable period	Adjusted exercise price (note 1) HK\$	Number of share options					
				As at 1 January 2002	Adjusted (note 2)	Granted during the year	Exercised during the year	Cancelled/lapsed during the year	As at 31 December 2002
Mr. Richard John Siemens	24.01.2000	24.01.2000– 24.10.2009	2.30	28,700,000	2,870,000	–	–	(2,870,000)	–
Mr. Derrick Francis Bulawa	25.10.1999	25.10.2000– 24.10.2009	1.40	23,961,235	2,396,124	–	–	(2,396,124)	–
	16.11.1999	16.11.2000– 24.10.2009	1.60	4,750,000	475,000	–	–	(475,000)	–
	23.12.1999	23.12.2000– 24.10.2009	2.00	250,000	25,000	–	–	(25,000)	–
	03.01.2000	03.01.2001– 24.10.2009	2.30	25,000	2,500	–	–	(2,500)	–
	25.10.2000	25.10.2001– 24.10.2009	1.20	9,532,274	953,226	–	–	(953,226)	–
				38,518,509	3,851,850	–	–	(3,851,850)	–
Mr. Li Shyang Guey	25.10.1999	25.10.2000– 24.10.2009	1.40	4,500,000	450,000	–	–	(450,000)	–
	24.01.2000	21.02.2000– 24.10.2009	2.30	1,500,000	150,000	–	–	(150,000)	–
	25.01.2000	01.03.2000– 24.10.2009	2.30	500,000	50,000	–	–	(50,000)	–
	03.03.2000	03.04.2000– 24.10.2009	7.60	3,800,000	380,000	–	–	(380,000)	–
				10,300,000	1,030,000	–	–	(1,030,000)	–
				77,518,509	7,751,850	–	–	(7,751,850) (note 3)	–

e-KONG Group Limited

Directors' Report (Cont'd)

Annual Report 2002

ARRANGEMENT TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Date of grant	Exercisable period	Adjusted exercise price (note 1) HK\$	Number of share options					
			As at 1 January 2002	Adjusted (note 2)	Granted during the year	Exercised during the year	Cancelled/lapsed during the year	As at 31 December 2002
Employees								
25.10.1999	25.10.2000– 24.10.2009	1.40	13,650,000	1,365,000	-	-	-	1,365,000
16.11.1999	16.11.2000– 24.10.2009	1.60	75,000	7,500	-	-	-	7,500
23.12.1999	23.12.2000– 24.10.2009	2.00	3,700,000	370,000	-	-	-	370,000
03.01.2000	03.01.2001– 24.10.2009	2.30	3,000,000	300,000	-	-	-	300,000
24.01.2000	21.02.2000– 24.10.2009	2.30	6,000,000	600,000	-	-	-	600,000
25.01.2000	01.03.2000– 24.10.2009	2.30	2,000,000	200,000	-	-	-	200,000
03.03.2000	03.04.2000– 24.10.2009	7.60	15,200,000	1,520,000	-	-	-	1,520,000
03.03.2000	03.03.2001– 24.10.2009	7.60	3,150,000	315,000	-	-	-	315,000
28.04.2000	28.04.2001– 24.10.2009	3.30	4,915,000	491,500	-	-	-	491,500
09.08.2000	09.08.2001– 24.10.2009	2.30	550,000	55,000	-	-	-	55,000
25.10.2000	25.10.2001– 24.10.2009	1.20	400,000	40,000	-	-	-	40,000
16.05.2001	16.05.2001– 01.04.2003	0.80	200,000	20,000	-	-	-	20,000
			52,840,000	5,284,000	-	-	-	5,284,000
TOTAL			130,358,509	13,035,850	-	-	(7,751,850)	5,284,000

ARRANGEMENT TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Notes:

1. The exercise price per share option was adjusted by multiplying by 20 and then being divided by 2 as a result of capital reorganisation and rights issue in November and December 2002, as detailed in note 18 to the financial statements, respectively.
2. The number of share options was adjusted by being divided by 20 with any fraction rounded down to the nearest integer and then multiplying by 2 as a result of capital reorganisation and rights issue in November and December 2002, as detailed in note 18 to the financial statements, respectively.
3. Deed of Cancellation was entered into between the Company and each of Mr. Richard John Siemens, Mr. Derrick Francis Bulawa and Mr. Lim Shyang Guey on 31 December 2002, pursuant to which the said directors voluntarily cancelled their outstanding share options of 7,751,850 in total on 31 December 2002.

As at 31 December 2002, no share options were granted by the Company under the New Share Option Scheme of the Company since its adoption on 28 June 2002. The particulars of the relevant schemes are further described under the heading of "Share Option Schemes" below.

Apart from the above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement 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, nor the chief executive, nor any of their spouses or children under the age of 18 had any interest in, or had been granted, any right to subscribe for the shares in or debentures of the Company or its associated corporation (within the meaning of the SDI Ordinance), or had exercised any such right during the year.

DIRECTORS' SERVICE CONTRACTS

The independent non-executive directors of the Company entered into service contracts with the Company for an initial one year fixed period ended on 31 December 2002 and thereafter continued until terminated by giving to the other party at least one calendar month's notice in writing thereof.

As at 31 December 2002, none of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

e-KONG Group Limited

Directors' Report (Cont'd)

Annual Report 2002

DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, the register of substantial shareholders maintained by the Company under section 16(1) of the SDI Ordinance showed that, other than the interests disclosed under the heading of "Directors' interests in securities" above, the following shareholders had an interest of 10% or more of the Company's issued share capital :

Name of shareholder	Number of shares held	Percentage of total issued share capital
Goldstone Trading Limited	98,231,627*	20.9%
Great Wall Holdings Limited	67,962,428*	14.4%
Future (Holdings) Limited	67,632,428*	14.4%

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

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31 December 2002.

SHARE CAPITAL

Details of movements in the Company's share capital during the year and the purpose of the shares issued are set out in note 18 to the financial statements.

SHARE OPTION SCHEMES

(a) Company

Pursuant to the employee share option scheme of the Company (the "Old Share Option Scheme") adopted in a special general meeting held on 25 October 1999, the directors of the Company might, at their discretion, invite eligible employees of the Group, including executive directors of the Company, to take up options to subscribe for shares in the Company under the terms and conditions stipulated therein. The Old Share Option Scheme was subsequently terminated by the Company in a special general meeting held on 28 June 2002 but the share options granted but not yet exercised thereunder would however remain effective and are bound by terms therein.

On 28 June 2002, the Company adopted a new share option scheme (the "New Share Option Scheme") to comply with the new requirements of Chapter 17 of the Listing Rules. Under the New Share Option Scheme, the Board may at its discretion grant share options to (i) any director, employee, consultant, customer, supplier, business introduction agent, or legal, financial or marketing adviser of or contractor to any company in the Group or any affiliate; and/or (ii) any discretionary trust the discretionary objects of which include any of the foregoing, under the terms and conditions stipulated therein. No share options have ever been granted by the Company under the New Share Option Scheme since adoption.

(b) Subsidiaries

Pursuant to the respective employee share option schemes (the "Old Subsidiary Schemes") adopted by certain subsidiaries of the Company under the terms and conditions of the rules and procedures for share option schemes for subsidiaries of the Company (the "Old Scheme Rules and Procedures") as adopted and approved by the Company in a special general meeting held on 25 April 2001, certain directors and the chief executive of the Company, who are also directors of those subsidiaries, and employees of those subsidiaries were eligible to subscribe for shares in the respective subsidiaries under the terms and conditions stipulated therein. The Old Subsidiary Schemes were subsequently terminated by the subsidiaries upon the cancellation of the Old Scheme Rules and Procedures in a special general meeting of the Company held on 28 June 2002. No share options have ever been granted by the subsidiaries under their respective Old Subsidiary Schemes since adoption.

SHARE OPTION SCHEMES (Cont'd)

Subsidiaries (Cont'd)

On 28 June 2002, the Company adopted new scheme rules and procedures for share option schemes for its subsidiaries (the "New Scheme Rules and Procedures") to comply with the new requirements of Chapter 17 of the Listing Rules. The subsidiaries may adopt their respective share options schemes in terms and conditions of the New Scheme Rules and Procedures, pursuant to which the board of directors of each of the relevant subsidiaries may at its discretion grant their respective share options to (i) any director, employee, consultant, customer, supplier, business introduction agent, or legal, financial or marketing adviser of or contractor to the subsidiaries and their subsidiaries, any of their holding companies or any affiliate; and/or (ii) any discretionary trust the discretionary objects of which include any of the foregoing. No subsidiaries have ever adopted their respective share option schemes pursuant to the terms and conditions of the New Scheme Rules and Procedures since adoption.

Summary of principal terms of the New Share Option Scheme and New Scheme Rules and Procedures are as follows:

Purpose

The scheme is designed to enable the board to grant share options to eligible participants as (i) incentives and/or rewards in recognition or acknowledgement of the contributions that eligible participants have made and will make to the group; and (ii) motivation to high calibre employees for high levels of performance in order to enhance long-term shareholder value.

(ii) Maximum number of shares

The total number of shares in respect of which share options may be granted (together with share options exercised and then outstanding) under the scheme and to be granted under any other share option schemes, shall not in aggregate exceed such number of shares representing 10% of the shares in issue as at the date of approval of the scheme unless shareholders' approval has been obtained pursuant to the scheme. (As at the date of the annual report, the total number of shares available for issue under the New Share Option Scheme is 8,582,762, representing 1.8% of the issued share capital of the Company as of that date.)

SHARE OPTION SCHEMES (Cont'd)

(v) Maximum number of shares (Cont'd)

The maximum number of shares issued and which may fall to be issued upon the exercise of the share options granted under the scheme and any other share option schemes (including both exercised and outstanding share options) to each eligible participant shall not exceed 1% of the shares in issue for the time being in any 12 month period up to and including the date of grant.

(vi) Exercise period and payment on acceptance of share options

A share option may be exercised in accordance with the terms of the scheme at any time during a period to be determined and notified by the directors to each grantee, subject to a maximum period of 10 years from the date of grant.

A share option shall be deemed to have been granted and accepted and to have taken effect when the duplicate letter comprising acceptance of the offer of the grant of a share option duly signed by the grantee (for the New Share Option Scheme) or the acceptance of the offer of the grant of a share option duly acknowledged by the grantee in such form as the board may from time to time determine (for the New Scheme Rules and Procedures) together with a remittance in favour of the company of HK\$1.00 (or its US\$ equivalent) in consideration of the grant thereof is received by the company on a business day not later than 28 days from the offer date.

(vii) Basis of determining the subscription price

New Share Option Scheme

Subject to the terms of the scheme and the provisions of the Listing Rules, the subscription price in respect of any share option shall be at least the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets over the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share.

e-KONG Group Limited

Directors' Report (Cont'd)

Annual Report 2002

SHARE OPTION SCHEMES (Cont'd)

(iv) Basis of determining the subscription price (Cont'd)

New Scheme Rules and Procedures

Subject to the terms of the scheme and the provisions of the Listing Rules, the subscription price in respect of any share option shall not be less than the par value of a share provided that if the share option is intended to qualify as an incentive stock option under the tax laws of the United States, the subscription price thereof shall not be less than the fair market value of a share as detailed therein.

Remaining life of the scheme

The scheme will be valid and effective, at the discretion of the board of directors, subject to a maximum period of 10 years from the date of adoption of the scheme.

PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars regarding the principal subsidiaries of the Company are set out in note 10 to the financial statements.

LIQUIDITY

As at 31 December 2002, the Group has managed to maintain stable liquidity with cash and cash equivalents of approximately HK\$38,795,000 (2001: HK\$118,456,000).

BANK LOANS AND OVERDRAFTS

The Group has no bank loans and overdrafts as at 31 December 2002. There was no interest capitalised by the Group during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

RETIREMENT BENEFITS SCHEMES

Since December 2000, the Group, other than overseas subsidiaries, has operated a Mandatory Provident Fund Scheme ("MPF Scheme") under the rules and regulations of the Mandatory Provident Fund Schemes Ordinance for all qualifying employees. The assets of the MPF Scheme are held separately from those of the Group and are under the control of independent trustees. Under the MPF Scheme, both the Group and each of the qualifying employees are required to make monthly contributions at 5% of the qualifying employee's monthly income, up to a maximum of HK\$1,000 each per month. The employees may also choose to make voluntary matching contribution above the said maximum level. The contributions from the MPF Scheme charged to the income statement represent contributions payable to the MPF Scheme by the Group, other than overseas subsidiaries, to funds at rates specified in the rules of the MPF Scheme.

The overseas subsidiaries have also operated their pension schemes or similar arrangement for their employees in accordance with the statutory limits prescribed by the relevant legal requirements.

At the balance sheet date, the Group had no significant forfeited contributions which arose upon employees leaving the MPF Scheme and which are available to reduce the contributions payable by the Group in the future years.

PARTICULARS OF DIRECTORS

Biographical details of directors of the Company are set out on pages 21 and 22 under Directors' Profile.

REMUNERATION POLICIES AND EMPLOYEE RELATIONS

As at 31 December 2002, the Group employed 214 full-time employees. The Group has maintained good relationships with its employees.

SUBSEQUENT EVENT

In January 2003, the Group entered into a sale and purchase agreement with an independent third party to dispose of two of the Company's subsidiaries at a consideration of HK\$1.5 million. Those subsidiaries held substantially all assets and liabilities acquired, created and assumed by the event management-related business undertaken by the Group.

e-KONG Group Limited

Directors' Report (Cont'd)

Annual Report 2002

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not, throughout the year ended 31 December 2002, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the draft audited financial statements for the year ended 31 December 2002.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda although there are no restrictions against such rights under the laws of Bermuda.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint the auditors, Messrs. Moores Rowland, *Chartered Accountants, Certified Public Accountants*.

On behalf of the Board
Richard John Siemens
Chairman

Hong Kong, 10 April 2003

Richard John Siemens, 58, Chairman, joined the Group in January 2000. Mr. Siemens is a key figure in the telecommunications industry, and is the Chairman and a founding member of Distacom Communications Limited. He is also a founding member, Co-Chairman and Executive Director of SUNDAY Communications Limited. Born and raised in Canada, Mr. Siemens was trained as a Chartered Accountant and came to Hong Kong in 1979. In 1984, he formed Hutchison Telephone Company Limited in partnership with Hutchison Whampoa and Motorola. While being Group Managing Director of Hutchison Telecommunications Limited, Mr. Siemens was instrumental in the establishing other leading companies including AsiaSat, STAR TV and Metro Radio. He also managed Hutchison's move into the European wireless business with "Orange".

Kuldeep Saran, 51, Vice Chairman, joined the Group in December 2001. Mr. Saran has wide experience of all aspects of telecommunications, and is a leading architect of the Company's strategic development. He is also an Executive Director of Distacom Communications Limited and SUNDAY Communications Limited. Mr. Saran joined Distacom from Deutsche Bank where he was the head of the Asia Pacific telecoms group. Prior to that Mr. Saran was director of planning at Hutchison Telecommunications responsible for the development and execution of new businesses in Europe and Asia. Before moving to Hong Kong in 1992, Mr. Saran was the country head of Motorola for India. He holds a Bachelors degree in Engineering and an M.B.A.

Derrick Francis Bulawa, 39, joined the Group as Chief Executive Officer in September 1999 and was appointed in October 1999 as Executive Director. Mr. Bulawa, founder of the Zone business and President of ZONE Telecom Inc., USA, is currently based in the United States, where he is spearheading the Company's expansion into the market. Mr. Bulawa was among the key founders of STAR TV and also served as Chief Operating Officer for the US based UNIFI Communications. His experience includes over 18 years in the global telecommunications, satellite communications, and data communications business sector. Mr. Bulawa received his Bachelor of Science degree in Electronic Engineering Technology from the DeVry Institute of Technology in the United States.

Lim Shyang Guey, 43, was appointed as Executive Director in October 1999. Mr. Lim is responsible for executing the Group's overall corporate strategy. Prior to coming to Hong Kong, Mr. Lim had worked in New Zealand, Russia, Malaysia and Singapore mainly in the telecommunications and technology-related industries. Mr. Lim holds a Bachelor of Engineering degree and a Master of Engineering degree, both from the University of Auckland in New Zealand.

e-KONG Group Limited

Directors' Profile (Cont'd)

William Bruce Hicks, 41, was appointed as Non-executive Director of the Company in December 2001. He is the Group Managing Director of SUNDAY Communications Limited, a mobile telephone company based in Hong Kong. Mr Hicks is also an Executive Director of Distacom Communications Limited, a major shareholder of SUNDAY. Prior to joining Distacom as partner in 1994, Mr. Hicks was at Hutchison Telecom in Hong Kong and Motorola Inc. in the United States. He received his B.S.E.E. degree from Michigan Technological University in 1983 and an M.B.A. from the International Management Institute in Geneva, Switzerland in 1987. Mr. Hicks, a Canadian citizen, is married with two children.

Shane Frederick Weir, 48, was appointed as Independent Non-executive Director of the Company in August 2001. Mr. Weir is a qualified solicitor and consultant with Weir & Associates, Solicitors & Notaries. Born and educated in Canada, Mr. Weir concentrates on corporate commercial tax and securities matters. He has practiced in Hong Kong since 1985 and for several years was employed in Hong Kong as an associate with Phillips & Vineberg, one of the oldest and most respected commercial law firms in North America. Mr. Weir qualified as a solicitor, barrister, and notary public in Canada and a solicitor in the United Kingdom as well as in Hong Kong.

Matthew Brian Rosenberg, 31, was appointed as Independent Non-executive Director of the Company in August 2001. Mr. Rosenberg is currently the Vice-President of International Sales and Operations for Forgent Networks. His international management experience spans 10 years through Asia, Australia, and Europe. He has successfully developed revenue-generating business models in those regions, primarily in the Telecoms and leading-edge technology sectors. He holds a Bachelor of Arts in Japanese and Spanish from the University of Amherst, Massachusetts.



To the members of
e-Kong Group Limited
(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 24 to 64 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

SPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Moore's Rowland
Chartered Accountants
Certified Public Accountants

Hong Kong, 10 April 2003

e-KONG Group Limited

Consolidated Income Statement

For the year ended 31 December 2002

Annual Report 2002

	Note	2002 HK\$'000	2001 HK\$'000
Turnover	3	316,746	263,896
Cost of sales		(226,986)	(214,038)
Gross profit		89,760	49,858
Other revenue	3	313	4,216
Other income		3,039	–
Distribution costs		(25,428)	(22,370)
Business promotion and marketing expenses		(6,853)	(31,166)
Operating and administrative expenses		(139,661)	(176,615)
Other operating expenses		(77,176)	(76,688)
Loss from operations		(156,006)	(252,765)
Finance costs	4	(1,080)	(1,216)
Intangible assets and goodwill written off	4	–	(114,795)
Provision for diminution in value of investment securities		(27,982)	(72,021)
Unrealised holding loss on other investments		(3,117)	(240,476)
Share of results of associates		1,911	(752)
Loss from ordinary activities before taxation	4	(186,274)	(682,025)
Taxation	6	–	–
Loss from ordinary activities after taxation		(186,274)	(682,025)
Minority interests		–	710
Net loss attributable to shareholders	7 & 20	(186,274)	(681,315)
Loss per share	8		
– Basic		(HK\$0.74)	(HK\$6.75)
– Diluted		N/A	N/A

e-KONG Group Limited

Consolidated Balance Sheet

As at 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	190,730	215,428
Interests in associates	11	-	4,838
Investment securities	12	3,452	31,434
		194,182	251,700
Current assets			
Other investments	13	91	47,737
Trade and other receivables	14	51,908	54,230
Pledged deposits	15	7,740	7,107
Bank balances and cash		31,055	111,349
		90,794	220,423
Current liabilities			
Trade and other payables	16	81,210	98,556
Current portion of obligations under finance leases	17	6,566	11,372
		87,776	109,928
Net current assets		3,018	110,495
Total assets less current liabilities		197,200	362,195
Long-term liabilities			
Obligations under finance leases	17	830	4,885
NET ASSETS		196,370	357,310
CAPITAL AND RESERVES			
Issued capital	18	4,709	103,665
Reserves	20	191,661	253,645
		196,370	357,310

Approved and authorised for issue by the Board of Directors on 10 April 2003

Richard John Siemens
Director

Kuldeep Saran
Director

e-KONG Group Limited

Balance Sheet

As at 31 December 2002

Annual Report 2002

	Note	2002 HK\$'000	2001 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	539	1,115
Interests in subsidiaries	10	184,564	515,300
Interests in associates	11	–	6,806
		185,103	523,221
Current assets			
Trade and other receivables	14	2,168	843
Pledged deposits	15	3,045	3,007
Bank balances and cash		16,336	90,577
		21,549	94,427
Current liabilities			
Trade and other payables	16	10,094	7,337
		11,455	87,090
Net current assets		11,455	87,090
NET ASSETS		196,558	610,311
CAPITAL AND RESERVES			
Issued capital	18	4,709	103,665
Reserves	20	191,849	506,646
		196,558	610,311

Approved and authorised for issue by the Board of Directors on 10 April 2003

Richard John Siemens
Director

Kuldeep Saran
Director

e-KONG Group Limited

Consolidated Statement of Changes in Equity

For the year ended 31 December 2002

	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Capital redemption reserve HK\$'000	Goodwill on consolidation HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As at 1 January 2001	40,879	1,122,734	(388)	6	(69,335)	-	(252,280)	841,616
Shares issued at premium	62,786	70,638	-	-	-	-	-	133,424
Shares issue expenses	-	(6,131)	-	-	-	-	-	(6,131)
Exchange difference on translation of foreign subsidiaries	-	-	381	-	-	-	-	381
Goodwill on consolidation written off	-	-	-	-	69,335	-	-	69,335
Net loss attributable to shareholders	-	-	-	-	-	-	(681,315)	(681,315)
As at 31 December 2001	103,665	1,187,241	(7)	6	-	-	(933,595)	357,310
Preference shares converted to shares	(9,680)	-	-	-	-	-	-	(9,680)
Shares issued upon preference shares conversion	194	9,486	-	-	-	-	-	9,680
Reduction of nominal value of shares from HK\$0.02 each to HK\$0.0005 each	(91,824)	-	-	91,824	-	-	-	-
Capital reorganisation	-	(1,196,239)	-	(91,824)	-	607,462	680,601	-
Shares issued at premium on rights issue	2,354	25,899	-	-	-	-	-	28,253
Shares issue expenses	-	(2,926)	-	-	-	-	-	(2,926)
Exchange difference on translation of foreign subsidiaries	-	-	7	-	-	-	-	7
Net loss attributable to shareholders	-	-	-	-	-	-	(186,274)	(186,274)
As at 31 December 2002	4,709	23,461	-	6	-	607,462	(439,268)	196,370

e-KONG Group Limited

Consolidated Cash Flow Statement

For the year ended 31 December 2002

Annual Report 2002

	Note	2002 HK\$'000	2001 HK\$'000
OPERATING ACTIVITIES			
Cash used in operations	21	(101,945)	(191,292)
Interest received		313	4,216
Interest on obligations under finance leases		(1,080)	(1,216)
Net cash used in operating activities		(102,712)	(188,292)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(24,777)	(134,564)
Purchase of intangible assets		-	(4,313)
Purchase of investment securities and other investments		-	(131,294)
Proceeds from disposal of property, plant and equipment		713	1,181
Proceeds from disposal of other investments		30,664	23,200
Net (repayment from)/advances to associates		(15)	7,195
Purchase of a subsidiary (net of cash and cash equivalents acquired)		-	(1,603)
Disposal of subsidiaries (net of cash and cash equivalents disposed)		-	15,000
Net cash generated from/(used in) investing activities		6,585	(225,198)
FINANCING ACTIVITIES			
Issue of shares		25,327	127,293
Capital contributed by minority shareholders		-	591
Repayment of obligations under finance leases		(8,861)	(8,926)
Net cash generated from financing activities		16,466	118,958
Net decrease in cash and cash equivalents		(79,661)	(294,532)
Cash and cash equivalents as at 1 January		118,456	412,988
Cash and cash equivalents as at 31 December		38,795	118,456
Analysis of the balances of cash and cash equivalents			
Pledged deposits		7,740	7,107
Bank balances and cash		31,055	111,349
		38,795	118,456

e-KONG Group Limited

Notes to the Financial Statements

For the year ended 31 December 2002

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its ordinary shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below.

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost, modified by revaluation of certain investments in securities as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2002.

The results of subsidiaries acquired and disposed of during the year are accounted for from the effective dates of acquisition or up to the effective dates of disposal respectively.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Losses attributable to minority shareholders of partly owned subsidiaries are accounted for based on the respective equity owned by the minority shareholders. Thereafter, the Group assumes all further losses.

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002



2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Goodwill on consolidation

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. Positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is carried as an asset in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.

Negative goodwill arising on acquisitions of subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill up to the fair values of the non-monetary assets acquired is recognised in the consolidated income statement over the weighted average useful life of depreciable non-monetary assets. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

On disposal of a subsidiary or an associate during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

Subsidiaries

A subsidiary is an enterprise, in which the Group or the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. Investments in subsidiaries in the Company's balance sheet are stated at cost less accumulated impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis.

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Associates

An associate is an enterprise in which the Group has significant influence and which is neither a subsidiary nor a joint venture. The consolidated income statement includes the Group's share of the results of the associates for the year, and the consolidated balance sheet includes the Group's share of net assets of the associates and also goodwill or negative goodwill on acquisition net of accumulated amortisation.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches nil, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. Improvements are capitalised and depreciated over their expected useful life.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the income statement.

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

Depreciation is provided to write off the cost less accumulated impairment loss of property, plant and equipment over their estimated useful life from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method at the following rates per annum:

Leasehold improvement	Over the remaining lease term
Machinery and equipment	20% – 33%
Office equipment, furniture and fittings	20% – 33%

Assets held under finance lease are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the leases.

Investments in securities

Investment securities held on a continuing basis with an identified long-term purpose are stated at cost and subject to impairment review at each reporting date to reflect any diminution in their value, which is expected to be other than temporary. The amount of provisions is recognised in the income statement in the period in which the decline occurs.

Securities not classified as investment securities are classified as other investments, which are stated at fair value in the balance sheet. The unrealised holding gains and losses for other investments are included in the income statement.

The gain or loss on disposal of investment securities and other investments is the difference between net sales proceeds and the carrying amount of the securities and is accounted for in the period in which the disposal occurs.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

2. **PRINCIPAL ACCOUNTING POLICIES** *(Cont'd)*

Impairment *(Cont'd)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

Income in respect of telecommunications services provided to customers is recognised when the services are rendered.

Income in respect of corporate management services is recognised when the event management services are rendered.

Other income includes internet security solution services income, sale of computer hardware and software, and insurance and management consulting income. Internet security solution services income, and insurance and management consulting income are recognised in the period when the services are rendered. Sale of computer hardware and software is recognised when goods are delivered and title has passed.

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Leasing (Cont'd)

Assets held under finance leases are recognised as assets at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are recognised as an expense on the straight-line basis over the lease terms.

Foreign currencies

Transactions in foreign currencies are translated at the approximate rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the approximate rates of exchange ruling at that date. Translation differences are included in the income statement.

On consolidation, the balance sheet of overseas subsidiaries denominated in currencies other than Hong Kong dollars is translated at the approximate rates of exchange ruling at the balance sheet date while the income statement is translated at average rates for the year. All exchange differences arising on consolidation are dealt with in the exchange reserve.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

Retirement benefits schemes

The obligations for contributions to retirement benefits schemes are recognised as expenses in the income statement as incurred. The assets of the schemes are held separately from those of the Group in independent trustees.

3. TURNOVER AND REVENUE

Turnover and revenue recognised by category are analysed as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Turnover		
Telecommunication services income	298,543	224,162
Corporate management services income	11,420	34,912
Others	6,783	4,822
	<hr/>	<hr/>
	316,746	263,896
Other revenue		
Interest income	313	4,216
	<hr/>	<hr/>
Revenue	317,059	268,112

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

Annual Report 2002

4. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	Group	
	2002 HK\$'000	2001 HK\$'000
(a) Finance costs		
Finance charges on obligations under finance leases	1,080	1,216
(b) Other items		
Amortisation of intangible assets included in other operating expenses	–	2,471
Auditors' remuneration:		
Current year	1,061	1,182
Overprovision in prior years	(581)	–
Bad debts written off	6,266	27,237
Provision for doubtful debts	1,238	6,170
Cost of inventories and services provided	226,986	214,038
Depreciation of property, plant and equipment:		
Owned assets	41,385	29,937
Assets held under finance leases	5,537	2,197
Intangible assets and goodwill written off:		
Intangible assets	–	44,208
Goodwill	–	70,587
Loss on disposal of other investments	13,865	3,807
Loss on disposal of property, plant and equipment	1,630	1,471
Loss on disposal of properties held for sale	–	2,111
Operating lease charges on premises	2,619	12,612
Staff costs, including retirement benefits schemes contributions	107,583	122,423
Retirement benefits schemes contributions	2,983	3,577
Impairment loss on property, plant and equipment included in other operating expenses	210	–

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

5. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	2002 HK\$'000	2001 HK\$'000
Fees	3,200	–
Salaries, other emoluments and other benefits in kind	3,842	4,211
Retirement benefits schemes contributions	70	12
	7,112	4,223

Included in the directors' remuneration were fees of HK\$200,000 (2001: HK\$Nil) paid to the independent non-executive directors during the year.

In additions to the above emoluments, certain directors were granted share options under the Company's employee share option scheme. During the year, all of the share options granted to directors were cancelled. Details of these benefits in kind are disclosed under the paragraph "Arrangement to enable directors to acquire shares or debentures" in the Directors' Report.

In the absence of a ready market for the options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted to the respective directors.

The remuneration of directors was within the following bands:

HK\$	Number of directors	
	2002	2001
Nil to 1,000,000	3	12
1,500,001 – 2,000,000	3	1
2,000,001 – 2,500,000	1	1
	7	14

No director waived or agreed to waive any remuneration during the year.

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

Annual Report 2002

5. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION (Cont'd)

Individuals with highest emoluments

Of the six (2001: five) individuals with the highest emoluments, four (2001: two) were directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other two (2001: three) individuals were as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other emoluments	3,486	4,981
Retirement benefits schemes contributions	5	—
Severance payment	—	325
	<u>3,491</u>	<u>5,306</u>

HK\$	Number of individuals	
	2002	2001
1,500,001 – 2,000,000	<u>2</u>	<u>3</u>

6. TAXATION

Hong Kong Profits Tax has not been provided as the Group incurred a loss for taxation purposes for the year.

The major components of deferred taxation not (credited)/provided for the year are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Excess of tax allowances over depreciation	(1,528)	504
Tax losses	(93,291)	(60,412)
	<u>(94,819)</u>	<u>(59,908)</u>

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

7. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders includes a loss of the Company amounted to HK\$439,080,000 (2001: HK\$459,819,000) which has been dealt with in the financial statements of the Company.

8. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2002 was based on the consolidated loss attributable to shareholders of HK\$186,274,000 (2001: HK\$681,315,000) and on the weighted average number of 252,549,887 (2001: 100,890,430) ordinary shares in issue during the year.

Diluted loss per share is not shown because the potential ordinary shares are anti-dilutive and would decrease the loss per share.

The comparative amount of the loss per share has been adjusted as a result of share consolidation and rights issue of 235,447,100 shares of the Company during the year.

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

Annual Report 2002

9. PROPERTY, PLANT AND EQUIPMENT

Group	Machinery and equipment HK\$'000	Leasehold improvement HK\$'000	Office equipment, furniture and fittings HK\$'000	Total HK\$'000
Cost				
As at 1 January 2002	231,993	938	22,209	255,140
Additions	21,496	32	3,249	24,777
Disposals	(5,630)	(237)	(1,494)	(7,361)
As at 31 December 2002	247,859	733	23,964	272,556
Accumulated depreciation				
As at 1 January 2002	31,634	232	7,846	39,712
Charge for the year	40,753	152	6,017	46,922
Impairment loss	–	–	210	210
Disposals	(4,226)	(198)	(594)	(5,018)
As at 31 December 2002	68,161	186	13,479	81,826
Net book value				
As at 31 December 2002	179,698	547	10,485	190,730
As at 31 December 2001	200,359	706	14,363	215,428

The net book value of the Group's property, plant and equipment includes an amount of HK\$5,537,000 (2001: HK\$22,262,000) in respect of assets held under finance leases.

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

9. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Company	Leasehold improvement HK\$'000	Office equipment, furniture and fittings HK\$'000	Total HK\$'000
Cost			
As at 1 January 2002	11	2,029	2,040
Disposals	(11)	(97)	(108)
As at 31 December 2002	–	1,932	1,932
Accumulated depreciation			
As at 1 January 2002	11	914	925
Charge for the year	–	559	559
Disposals	(11)	(80)	(91)
As at 31 December 2002	–	1,393	1,393
Net book value			
As at 31 December 2002	–	539	539
As at 31 December 2001	–	1,115	1,115

Annual Report 2002

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

Annual Report 2002

10. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	7,855	–
Due from subsidiaries	901,509	816,300
Less: Provisions	(724,800)	(301,000)
	184,564	515,300

Details of the principal subsidiaries at the balance sheet date are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid up share capital	Percentage of share capital held by the Company		Principal activities
			Directly	Indirectly	
ZONE Global Limited	British Virgin Islands	US\$1	100%	–	Investment holding
ZONE Limited	Hong Kong	HK\$2	–	100%	Provision of telecommunication services
ZONE Telecom Pte Ltd	Singapore	S\$100,000	–	100%	Provision of telecommunication services
ZONE USA, Inc.	United States of America	US\$10	–	100%	Investment holding
ZONE Telecom, Inc.	United States of America	US\$10	–	100%	Provision of telecommunication services
E-Force Limited	Hong Kong	HK\$2	–	100%	Asset holding
EventClicks Global Limited	British Virgin Islands	US\$1,075,269	93%	–	Investment holding

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

10. INTERESTS IN SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid up share capital	Percentage of share capital held by the Company		Principal activities
			Directly	Indirectly	
EventClicks Limited	Hong Kong	HK\$500,000	–	93%	Provision of corporate management services
EventClicks Singapore Pte Limited	Singapore	S\$2	–	93%	Provision of corporate management services
speedinsure Global Limited	British Virgin Islands	US\$10,000	70%	–	Investment holding
speedinsure.com Limited	Hong Kong	HK\$10,000	–	70%	Provision of sales and fulfillment solution
Cyber Insurance Brokers Limited	Hong Kong	HK\$5,000,000	–	70%	Insurance brokerage
NETdefence Company Limited	Hong Kong	HK\$10,000	–	51%	Provision of internet security solution
e-Kong Pillars Limited	British Virgin Islands	US\$1	100%	–	Investment holding
e-Kong Ventures Limited	British Virgin Islands	US\$1	100%	–	Investment holding

The above summary includes those subsidiaries of the Company which, in the opinion of the Company's directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Trade receivables	44,976	37,943	-	-
Other receivables				
Deposits, prepayments and other debtors	6,932	16,287	2,168	843
	51,908	54,230	2,168	843

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Current	43,402	29,048
1 to 3 months	432	5,922
More than 3 months but less than 12 months	1,142	2,973
	44,976	37,943

15. PLEDGED DEPOSITS

At the balance sheet date, the Group and the Company had pledged deposits amounting HK\$7,740,000 (2001: HK\$7,107,000) and HK\$3,045,000 (2001: HK\$3,007,000) respectively to banks for guarantee made by the banks to certain telecommunication carriers for due payment by the Group.

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

Annual Report 2002

16. TRADE AND OTHER PAYABLES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Trade payables	45,067	42,041	–	–
Other payables				
Accrued charges and other creditors	36,143	56,515	5,492	2,816
Due to subsidiaries	–	–	4,602	4,521
	81,210	98,556	10,094	7,337

Included in trade and other payables are trade creditors with the following ageing analysis.

	Group	
	2002 HK\$'000	2001 HK\$'000
Current	25,300	12,617
1 to 3 months	7,877	16,580
More than 3 months but less than 12 months	11,890	12,844
	45,067	42,041

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

17. OBLIGATIONS UNDER FINANCE LEASES

The obligations under finance leases are repayable as follows:

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	6,744	12,555	6,566	11,372
After one year but within 2 years	900	5,123	830	4,885
	7,644	17,678	7,396	16,257
Future finance charges	(248)	(1,421)	-	-
Present value of lease obligations	7,396	16,257	7,396	16,257

Annual Report 2002

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

Annual Report 2002

18. ISSUED CAPITAL

Authorised	2002		2001	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
<i>Preference shares</i>				
As at 1 January and as at 31 December, at HK\$1 each	<u>288,929,402</u>	<u>288,929</u>	<u>288,929,402</u>	<u>288,929</u>
<i>Ordinary shares</i>				
As at 1 January, at HK\$0.02 each	<u>6,000,000,000</u>	<u>120,000</u>	3,000,000,000	60,000
Increase in ordinary shares	-	-	3,000,000,000	60,000
Subdivision of ordinary shares	<u>6,000,000,000</u>	-	-	-
As at 31 December, at HK\$0.01 (2001: HK\$0.02) each	<u>12,000,000,000</u>	<u>120,000</u>	<u>6,000,000,000</u>	<u>120,000</u>
		<u>408,929</u>		<u>408,929</u>

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

18. ISSUED CAPITAL (Cont'd)

	2002		2001	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Issued and fully paid				
<i>Preference shares</i>				
As at 1 January, at HK\$1 each	9,680,000	9,680	9,680,000	9,680
Converted to ordinary shares	(9,680,000)	(9,680)	—	—
As at 31 December, at HK\$1 each	—	—	9,680,000	9,680
<i>Ordinary shares</i>				
As at 1 January, at HK\$0.02 each	4,699,262,008	93,985	1,559,959,336	31,199
Converted from preference shares	9,680,000	194	—	—
Reduction of nominal value from HK\$0.02 each to HK\$0.0005 each	—	(91,824)	—	—
Consolidation of shares	(4,473,494,908)	—	—	—
Issue of ordinary shares	235,447,100	2,354	3,139,294,672	62,786
Exercise of share options	—	—	8,000	—
As at 31 December, at HK\$0.01 (2001: HK\$0.02) each	470,894,200	4,709	4,699,262,008	93,985
Total		4,709		103,665

Annual Report 2002

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

18. ISSUED CAPITAL (Cont'd)

Details of changes in the share capital of the Company during the year are as follows:

(a) In October 2002, an aggregate of 9,680,000 preference shares of HK\$1 each were compulsorily converted into 9,680,000 ordinary shares of HK\$0.02 each at a premium of HK\$0.98 per share.

(b) On 21 November 2002, a special general meeting was convened and the shareholders approved the capital reorganisation and the subdivision of authorised share capital as follows:

(i) Capital reorganisation

The nominal value of all the then existing issued shares was reduced from HK\$0.02 per share to HK\$0.0005 per share (the "Reduced Share") by way of cancellation of HK\$0.0195 per share.

The credit amount of HK\$91,824,000 arising from the capital reduction and the credit amount of HK\$1,196,239,000 standing to the credit of the share premium account of the Company were used to set-off against the accumulated losses of the Company of HK\$680,601,000 as at 31 December 2001 and the remaining balance of HK\$607,462,000 was credited to the contributed surplus account of the Company.

Every 20 issued Reduced Shares of HK\$0.0005 each were consolidated into one ordinary share of HK\$0.01 (the "Consolidated Share").

(ii) Subdivision of authorised share capital

All of the authorised but unissued ordinary shares of HK\$0.02 in the capital of the Company were sub-divided into two new ordinary shares of HK\$0.01 each in the capital of the Company.

(c) In December 2002, 235,447,100 new ordinary shares of HK\$0.01 each were issued by way of a rights issue on the basis of one rights share for every one new ordinary share of HK\$0.01 each, at an issue price of HK\$0.12 per share ("the Right Issue").

The directors intended to apply the net proceeds of the rights issue as to about HK\$25 million as the Company's working capital.

All the new ordinary shares issued during the year rank pari passu in all aspects with the existing ordinary shares of the Company.

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

19. SHARE OPTIONS

(a) Company

Pursuant to the employee share option scheme of the Company (the "Old Share Option Scheme") adopted in a special general meeting held on 25 October 1999, the directors of the Company might, at their discretion, invite eligible employees of the Group, including executive directors of the Company, to take up options to subscribe for shares in the Company under the terms and conditions stipulated therein. The Old Share Option Scheme was subsequently terminated by the Company in a special general meeting held on 28 June 2002 but the share options granted but not yet exercised thereunder would however remain effective and are bound by terms therein.

On 28 June 2002, the Company adopted a new share option scheme (the "New Share Option Scheme") to comply with the new requirements of Chapter 17 of the Listing Rules. Under the New Share Option Scheme, the Board may at its discretion grant share options to (i) any director, employee, consultant, customer, supplier, business introduction agent, or legal, financial or marketing adviser of or contractor to any company in the Group or any affiliate; and/or (ii) any discretionary trust the discretionary objects of which include any of the foregoing, under the terms and conditions stipulated therein. No share options have ever been granted by the Company under the New Share Option Scheme since adoption.

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

Annual Report 2002

19. SHARE OPTIONS (Cont'd)

(a) Company (Cont'd)

Details of the share options granted and remained outstanding under the Old Share Option Scheme at the balance sheet date were as follows:

Date of grant	Exercisable period	Adjusted exercise price HK\$	Number of share options					As at 31 December 2002
			As at 1 January 2002	Adjusted	Granted during the year	Exercised during the year	Cancelled/lapsed during the year	
25.10.1999	25.10.2000– 24.10.2009	1.40	42,111,235	4,211,124	–	–	(2,846,124)	1,365,000
16.11.1999	16.11.2000– 24.10.2009	1.60	4,825,000	482,500	–	–	(475,000)	7,500
23.12.1999	23.12.2000– 24.10.2009	2.00	3,950,000	395,000	–	–	(25,000)	370,000
03.01.2000	03.01.2001– 24.10.2009	2.30	3,025,000	302,500	–	–	(2,500)	300,000
24.01.2000	24.01.2000– 24.10.2009	2.30	28,700,000	2,870,000	–	–	(2,870,000)	–
24.01.2000	21.02.2000– 24.10.2009	2.30	7,500,000	750,000	–	–	(150,000)	600,000
25.01.2000	01.03.2000– 24.10.2009	2.30	2,500,000	250,000	–	–	(50,000)	200,000
03.03.2000	03.04.2000– 24.10.2009	7.60	19,000,000	1,900,000	–	–	(380,000)	1,520,000
03.03.2000	03.03.2001– 24.10.2009	7.60	3,150,000	315,000	–	–	–	315,000
28.04.2000	28.04.2001– 24.10.2009	3.30	4,915,000	491,500	–	–	–	491,500
09.08.2000	09.08.2001– 24.10.2009	2.30	550,000	55,000	–	–	–	55,000
25.10.2000	25.10.2001– 24.10.2009	1.20	9,932,274	993,226	–	–	(953,226)	40,000
16.05.2001	16.05.2001– 01.04.2003	0.80	200,000	20,000	–	–	–	20,000
TOTAL			130,358,509	13,035,850	–	–	(7,751,850)	5,284,000

19. SHARE OPTIONS *(Cont'd)*

(a) Company *(Cont'd)*

The exercise price per share option was adjusted by multiplying by 20 and then being divided by 2 as a result of capital reorganisation and rights issue in November and December 2002 respectively.

The number of share options was adjusted by being divided by 20 with any fraction rounded down to the nearest integer and then multiplying by 2 as a result of capital reorganisation and rights issue in November and December 2002 respectively.

(b) Subsidiaries

Pursuant to the respective employee share option schemes (the "Old Subsidiary Schemes") adopted by certain subsidiaries of the Company under the terms and conditions of the rules and procedures for share option schemes for subsidiaries of the Company (the "Old Scheme Rules and Procedures") as adopted and approved by the Company in a special general meeting held on 25 April 2001, certain directors and the chief executive of the Company, who are also directors of those subsidiaries, and employees of those subsidiaries were eligible to subscribe for shares in the respective subsidiaries under the terms and conditions stipulated therein. The Old Subsidiary Schemes were subsequently terminated by the subsidiaries upon the cancellation of the Old Scheme Rules and Procedures in a special general meeting of the Company held on 28 June 2002. No share options have ever been granted by the subsidiaries under their respective Old Subsidiary Schemes since adoption.

On 28 June 2002, the Company adopted new scheme rules and procedures for share option schemes for its subsidiaries (the "New Scheme Rules and Procedures") to comply with the new requirements of Chapter 17 of the Listing Rules. The subsidiaries may adopt their respective share options schemes in terms and conditions of the New Scheme Rules and Procedures, pursuant to which the board of directors of each of the relevant subsidiaries may at its discretion grant their respective share options to (i) any director, employee, consultant, customer, supplier, business introduction agent, or legal, financial or marketing adviser of or contractor to the subsidiaries and their subsidiaries, any of their holding companies or any affiliate; and/or (ii) any discretionary trust the discretionary objects of which include any of the foregoing. No subsidiaries have ever adopted their respective share option schemes pursuant to the terms and conditions of the New Scheme Rules and Procedures since adoption.

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

Annual Report 2002

20. RESERVES

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital redemption reserve HK\$'000	Goodwill on consolidation HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Group							
As at 1 January 2001	1,122,734	(388)	6	(69,335)	-	(252,280)	800,737
Shares issue	70,638	-	-	-	-	-	70,638
Shares issue expenses	(6,131)	-	-	-	-	-	(6,131)
Exchange difference on translation of foreign subsidiaries	-	381	-	-	-	-	381
Goodwill on consolidation written off	-	-	-	69,335	-	-	69,335
Net loss attributable to shareholders	-	-	-	-	-	(681,315)	(681,315)
As at 31 December 2001	1,187,241	(7)	6	-	-	(933,595)	253,645
Shares issued at premium upon preference shares conversion	9,486	-	-	-	-	-	9,486
Reduction of nominal value of shares from HK\$0.02 each to HK\$0.0005 each	-	-	91,824	-	-	-	91,824
Capital reorganisation	(1,196,239)	-	(91,824)	-	607,462	680,601	-
Shares issued at premium on rights issue	25,899	-	-	-	-	-	25,899
Shares issue expenses	(2,926)	-	-	-	-	-	(2,926)
Exchange difference on translation of foreign subsidiaries	-	7	-	-	-	-	7
Net loss attributable to shareholders	-	-	-	-	-	(186,274)	(186,274)
As at 31 December 2002	23,461	-	6	-	607,462	(439,268)	191,661

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

20. RESERVES (Cont'd)

Company	Share premium HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As at 1 January 2001	1,122,734	6	-	(220,782)	901,958
Shares issue	70,638	-	-	-	70,638
Shares issue expenses	(6,131)	-	-	-	(6,131)
Net loss attributable to shareholders	-	-	-	(459,819)	(459,819)
As at 31 December 2001	1,187,241	6	-	(680,601)	506,646
Shares issued at premium upon preference share conversion	9,486	-	-	-	9,486
Reduction of nominal value of shares from HK\$0.02 each to HK\$0.0005 each	-	91,824	-	-	91,824
Capital reorganisation	(1,196,239)	(91,824)	607,462	680,601	-
Shares issued at premium on rights issue	25,899	-	-	-	25,899
Shares issue expenses	(2,926)	-	-	-	(2,926)
Net loss attributable to shareholders	-	-	-	(439,080)	(439,080)
As at 31 December 2002	23,461	6	607,462	(439,080)	191,849

Contributed surplus represents the amounts transferred from share premium account as a result of the capital reorganisation underwent by the Company in November 2002, as mentioned in note 18 to the financial statements. Under the Company Act 1981 of Bermuda (as amended), contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

- (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

Annual Report 2002

20. RESERVES (Cont'd)

As at 31 December 2002, the Company had the following reserves available for distribution to shareholders:

	2002 HK\$'000	2001 HK\$'000
Contributed surplus	607,462	–
Accumulated losses	(439,080)	–
	<u>168,382</u>	<u>–</u>

21. CASH USED IN OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Loss before taxation	(186,274)	(682,025)
Interest income	(313)	(4,216)
Interest on obligations under finance leases	1,080	1,216
Depreciation	46,922	32,134
Loss on disposal of property, plant and equipment	1,630	1,471
Impairment loss on property, plant and equipment	210	–
Intangible assets and goodwill written off	–	114,795
Unrealised holding loss on other investments	3,117	240,476
Provision for diminution in value of investment securities	27,982	72,021
Loss on disposal of other investments	13,865	3,807
Share of results of associates	(1,911)	752
Bad debts written off	6,266	27,237
Provision for doubtful debts	1,238	6,170
Waiver of amount due from associates	6,764	–
Amortisation of intangible assets	–	2,471
Changes in working capital:		
Properties held for sale	–	3,734
Inventories	–	978
Trade and other receivables	(5,182)	(13,185)
Trade and other payables	(17,346)	491
Effect of exchange rate changes	7	381
Cash used in operations	<u>(101,945)</u>	<u>(191,292)</u>

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

22. COMMITMENTS UNDER OPERATING LEASES

At the balance sheet date, total outstanding commitments in respect of land and buildings under non-cancellable operating leases are payable as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	6,925	10,361	-	651
In the second to fifth years inclusive	3,717	4,144	-	-
	10,642	14,505	-	651

23. DEFERRED TAXATION

At the balance sheet date, the major components of the deferred taxation liabilities/ (assets) unprovided are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Excess of tax allowances over depreciation	1,163	2,691
Tax losses carried forward	(182,124)	(88,833)
	(180,961)	(86,142)

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

Annual Report 2002

24. POST BALANCE SHEET EVENT

In January 2003, the Group entered into a sale and purchase agreement with an independent third party to dispose of two of the Company's wholly-owned subsidiaries at a consideration of HK\$1.5 million. The consideration of HK\$1.5 million had been settled before the date of these financial statements.

Upon disposal of the two subsidiaries, which were engaged in the business of provision of event management services, the corporate management services segment of the Group has been discontinued since January 2003.

The turnover, results and net cash flows of the corporate management services operations for the current year, which have been included in the financial statements are as follow:

	2002 HK\$'000	2001 HK\$'000
Turnover	11,420	34,912
Operating costs	(22,990)	(57,524)
Loss before taxation	(11,570)	(22,612)
Taxation	-	-
Loss from ordinary activities after taxation	(11,570)	(22,612)
Net cash flow		
Operating activities	(9,304)	(19,052)
Investing activities	17	(4,469)
Financing activities	7,717	23,077
	(1,570)	(444)

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

24. POST BALANCE SHEET EVENT (Cont'd)

The assets and liabilities of the corporate management services operations to be disposed of are as follows:

	2002 HK\$'000	2001 HK\$'000
Total assets	2,849	7,715
Total liabilities	(41,065)	(34,361)
Net liabilities	(38,216)	(26,646)

Annual Report 2002

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

25. SEGMENTAL INFORMATION

The analysis of the principal business activities and geographical area of operations of the Group during the year are as follows:

(a) By business segments

Year ended 31 December 2002

	Telecom- munication services HK\$'000	Corporate management services HK\$'000	Others HK\$'000	Consolidated HK\$'000
Turnover				
External sales	298,543	11,420	6,783	316,746
Results				
Loss from operations	(103,493)	(11,570)	(9,789)	(124,852)
Finance costs				(1,080)
Other operating income and expenses				(31,154)
Unrealised holding loss on other investment				(3,117)
Provision for diminution in value of investment securities				(27,982)
Share of results of associates				1,911
Net loss attributable to shareholders				(186,274)
Other information				
Capital expenditure	24,652	25	100	
Depreciation	43,039	1,401	1,921	
Significant non-cash expenses (other than depreciation and amortisation)	7,804	821	77	

	Telecom- munication services HK\$'000	Corporate management services HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	254,432	2,849	3,711	(77)	260,915
Unallocated assets					24,061
					284,976
Liabilities					
Segment liabilities	79,562	3,013	1,557	(77)	84,055
Unallocated liabilities					4,551
					88,606

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

25. SEGMENTAL INFORMATION (Cont'd)

(a) By business segments (Cont'd)

Year ended 31 December 2001

	Telecom- munication services HK\$'000	Corporate management services HK\$'000	Others HK\$'000	Consolidated HK\$'000
Turnover				
External sales	224,162	34,912	4,822	263,896
Results				
Loss from operations	(163,391)	(22,612)	(16,107)	(202,110)
Intangible assets and goodwill written off	(105,628)	(2,508)	(6,659)	(114,795)
	(269,019)	(25,120)	(22,766)	(316,905)
Finance costs				(1,216)
Other operating income and expenses				(50,655)
Unrealised holding loss on other investments				(240,476)
Provision for diminution in value of investment securities				(72,021)
Share of results of associates				(752)
Loss from ordinary activities				(682,025)
Minority interests				710
Net loss attributable to shareholders				(681,315)
Other information				
Capital expenditure	158,635	3,076	1,234	
Depreciation and amortisation	30,725	1,286	2,076	
Significant non-cash expenses (other than depreciation and amortisation)	7,678	-	271	

	Telecom- munication services HK\$'000	Corporate management services HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	268,899	8,134	9,715	(382)	286,366
Interests in associates					4,838
Unallocated assets					180,919
					472,123
Liabilities					
Segment liabilities	106,417	4,405	804	(382)	111,244
Unallocated liabilities					3,569
					114,813

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

Annual Report 2002

25. SEGMENTAL INFORMATION (Cont'd)

(b) By geographical segments

In presenting information on the basis of geographical segment, revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

Year ended 31 December 2002

	Asia Pacific HK\$'000	North America HK\$'000	Consolidated HK\$'000
Turnover			
External sales	139,282	177,464	316,746
Results			
Loss from operations	(43,105)	(81,747)	(124,852)
Finance costs			(1,080)
Other operating income and expenses			(31,154)
Unrealised holding loss on other investments			(3,117)
Provision for diminution in value of investment securities			(27,982)
Share of results of associates			1,911
Net loss attributable to shareholders			(186,274)
Other information			
Segment assets	45,503	215,412	260,915
Unallocated assets			24,061
			284,976
Capital expenditure	2,257	22,520	

e-KONG Group Limited

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2002

25. SEGMENTAL INFORMATION (Cont'd)

(b) By geographical segments (Cont'd)

Year ended 31 December 2001

	Asia Pacific HK\$'000	North America HK\$'000	Consolidated HK\$'000
Turnover			
External sales	150,319	113,577	263,896
Result			
Loss from operations	(105,181)	(96,929)	(202,110)
Intangible assets and goodwill written off	(79,102)	(35,693)	(114,795)
	(184,283)	(132,622)	(316,905)
Finance costs			(1,216)
Other operating income and expenses			(50,655)
Unrealised holding loss on other investments			(240,476)
Provision for diminution in value of investment securities			(72,021)
Share of results of associates			(752)
Loss from ordinary activities			(682,025)
Minority interests			710
Net loss attributable to shareholders			(681,315)
Other information			
Segment assets	132,632	153,734	286,366
Interests in associates			4,838
Unallocated assets			180,919
			472,123
Capital expenditure	92,311	71,167	

e-KONG Group Limited

Notes to the Financial Statements *(Cont'd)*

For the year ended 31 December 2002

Annual Report 2002

26. COMPARATIVE FIGURES

Following the adoption of the SSAP15 (revised) "Cash flow statements" issued by the Hong Kong Society of Accountants, the comparative information in the consolidated cash flow statements and related notes have been reclassified to conform to the current year's presentation.

e-KONG Group Limited

Summary of Results, Assets and Liabilities of the Group

	Results of the Group for the five years ended 31 December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Turnover					
Continuing operations	316,746	263,896	76,652	44,210	54,334
Discontinued operations	-	-	23,473	1,035	-
	316,746	263,896	100,125	45,245	54,334
(Loss)/Profit from operations	(188,185)	(681,273)	5,105	(75,170)	(55,323)
Share of results of associates	1,911	(752)	(1,110)	-	-
(Loss)/Profit before taxation	(186,274)	(682,025)	3,995	(75,170)	(55,323)
Taxation	-	-	(739)	(739)	(1,763)
(Loss)/Profit from ordinary activities after taxation	(186,274)	(682,025)	3,256	(75,909)	(57,086)
Minority interests	-	710	(1,954)	(2,499)	(6,469)
Net (loss)/profit attributable to shareholders	(186,274)	(681,315)	1,302	(78,408)	(63,555)
(Loss)/Earnings per share					
Basic	(HK\$0.74)	(HK\$6.75)	HK\$0.015	(HK\$1.92)	(HK\$2.39)
Diluted	N/A	N/A	HK\$0.013	N/A	N/A

As a result of share consolidation and rights issue in 2002, figures for the years from 1998 to 2001 have been adjusted for comparison purposes.

e-KONG Group Limited

Summary of Results, Assets and Liabilities of the Group (Cont'd)

Annual Report 2002

	Assets and liabilities of the Group as at 31 December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Non-current assets	194,182	251,700	448,483	16,295	70,179
Current assets	90,794	220,423	491,491	115,752	15,406
Total assets	284,976	472,123	939,974	132,047	85,585
Less:					
Non-current liabilities	830	4,885	–	–	–
Current liabilities	87,776	109,928	98,239	14,346	9,278
Total liabilities	88,606	114,813	98,239	14,346	9,278
	196,370	357,310	841,735	117,701	76,307
Less:					
Minority interests	–	–	119	12,441	10,739
Net assets	196,370	357,310	841,616	105,260	65,568

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of e-Kong Group Limited (the "Company") will be held at Room 3805, Tower II, Lippo Centre, 89 Queensway, Hong Kong, on Friday, 23 May 2003 at 10:00 a.m. for the following purposes:

As Ordinary Business

1. To receive and consider the audited financial statements for the year ended 31 December 2002 and the reports of directors and of the auditors thereon;
2. To re-elect retiring directors and to fix their remuneration;
3. To re-appoint auditors and to authorise the board of directors to fix their remuneration;

As Special Business

4. To consider and, if thought fit, pass the following resolutions, with or without amendments, as ordinary resolutions:

A "THAT:

- (a) subject to paragraph (c) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue or otherwise deal with additional shares of HK\$0.01 each in the capital of the Company, or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares, and to make or grant offers, agreements or options which would or might require the exercise of such powers, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements or options which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to issue of shares as a result of :
 - (i) a Rights Issue (as hereinafter defined); or

e-KONG Group Limited

Notice of Annual General Meeting (Cont'd)

- (ii) any scrip dividend or similar arrangement providing for the allotment of shares, in lieu of the whole or part of a dividend on shares of the Company, pursuant to the Bye-laws of the Company from time to time; or
- (iii) the exercise of any option granted under any share option scheme or similar arrangement for the time being adopted and approved by the shareholders of the Company for the grant or issue to directors or employees or eligible participants of the Company and/or any of its subsidiaries of shares or rights to acquire shares in the Company; or
- (iv) the exercise of redemption or conversion rights attaching to the non-cumulative convertible redeemable preference shares of HK\$1.00 each in the capital of the Company which may be issued by the Company; or
- (v) the exercise of subscription rights or conversion rights attaching to any warrants or any other securities convertible into shares which may be issued by the Company,

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly; and

- (d) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; or
- (iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to the holders of shares of the Company or any class thereof on the register of members of the Company on a fixed record

date in proportion to their then holdings of such shares or any class thereof (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws, or the requirements of any recognised regulatory body or any stock exchange, in any territory applicable to the Company)."

B. "THAT:

- (a) subject to paragraph (b) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), or on any other stock exchange on which the shares of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose ("Recognised Stock Exchange"), subject to and in accordance with all applicable laws and/or the requirements of the Rules Governing the Listing of Securities on the Stock Exchange and, if applicable, any other Recognised Stock Exchange, as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to paragraph (a) of this Resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; or
- (iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting."

e-KONG Group Limited

Notice of Annual General Meeting (Cont'd)

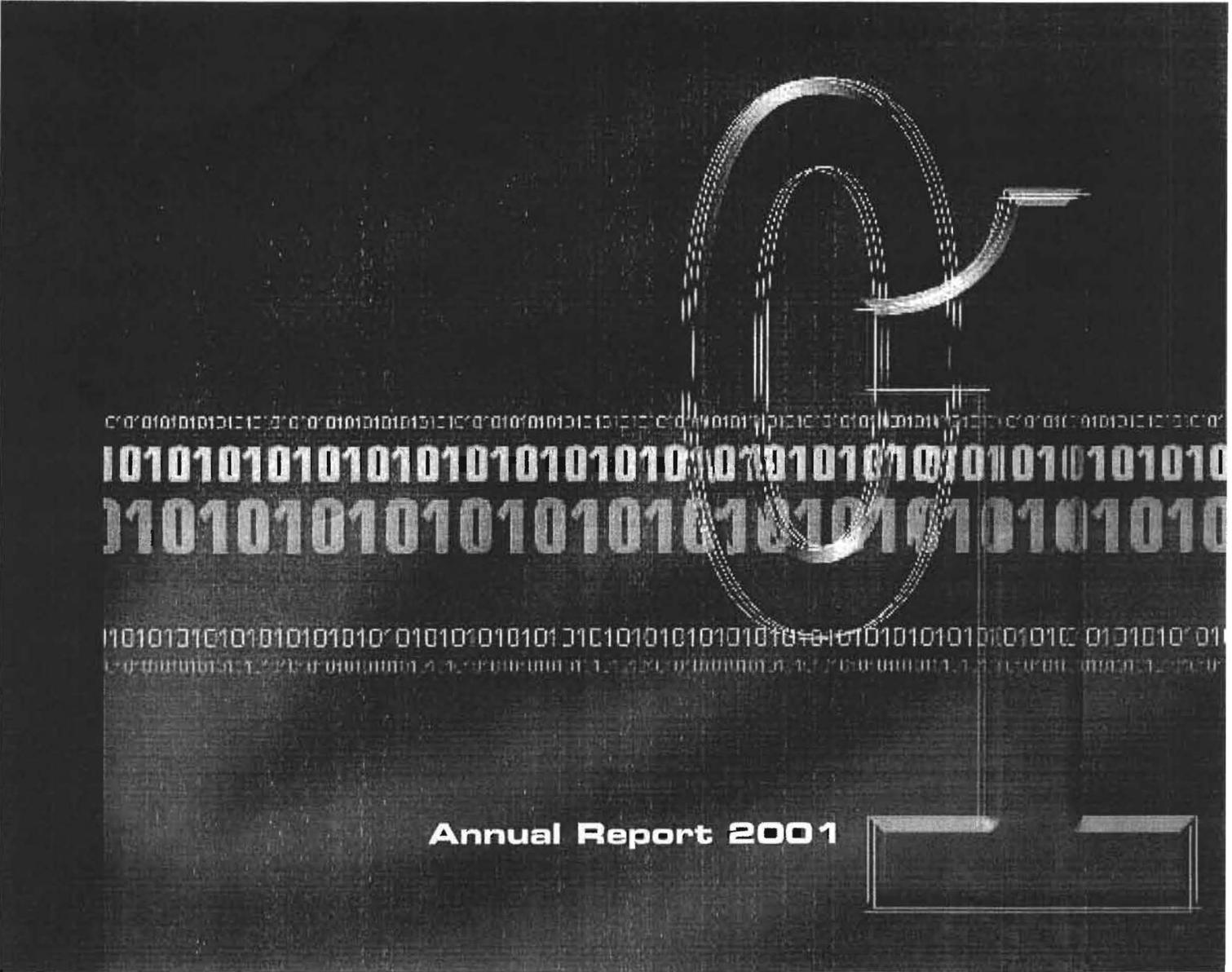
- C. "THAT conditional upon Resolutions 4A and 4B above being passed, the general mandate granted to directors of the Company for the time being in force to exercise the powers of the Company to allot, issue and deal with additional shares of the Company pursuant to Resolution 4A be and is hereby extended by the addition to the aggregate nominal amount of share capital of the Company which may be allotted, issued, and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with by the directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the shares repurchased by the Company under the authority granted pursuant to Resolution 4B, provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution."

By Order of the Board
Wang Poey Foon, Angela
Company Secretary

Hong Kong, 10 April 2003

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice (or at any adjournment thereof) is entitled to appoint a proxy to attend and vote on his/her behalf at the meeting. A proxy need not be a member of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrars in Hong Kong, Secretaries Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof.
3. Completion and delivery of the form of proxy shall not preclude any member from attending and voting in person at the meeting convened, if the member so desires and in such event, the form of proxy shall be deemed to be revoked.
4. In case of joint registered holders of any shares, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such shares as if he/she was solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first in the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
5. An explanatory statement containing further details regarding Resolution 4 above will be sent to members and other persons who are entitled thereto together with the Company's 2002 Annual Report.



Annual Report 2001

Contents

2	Corporate Information
3	Chairman's Statement
4	Management Discussion and Analysis
7	Directors' Report
17	Directors' Profile
19	Auditors' Report
20	Consolidated Income Statement
21	Consolidated Statement of Recognised Gains and Losses
22	Consolidated Balance Sheet
23	Balance Sheet
24	Consolidated Cash Flow Statement
25	Notes to the Financial Statements
58	Summary of Results, Assets and Liabilities of the Group
60	Notice of Annual General Meeting

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Richard John Siemens (*Chairman*)
Kuldeep Saran (*Deputy Chairman*)
Derrick Francis Bulawa
Lim Shyang Guey

Non-executive Directors

William Bruce Hicks
Shane Frederick Weir
Matthew Brian Rosenberg

AUDIT COMMITTEE

Shane Frederick Weir
Matthew Brian Rosenberg

COMPANY SECRETARY

Wang Poey Foon, Angela

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

Suite 2101-3
K. Wah Centre
191 Java Road
North Point
Hong Kong
Tel: (852) 2296 9700
Fax: (852) 2429 7116

SOLICITORS

Angela Wang & Co
Conyers, Dill & Pearman

AUDITORS

Moores Rowland
Chartered Accountants
Certified Public Accountants

PRINCIPAL SHARE REGISTRARS

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRARS

Secretaries Limited
5th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

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

WEBSITE

<http://www.e-kong.com>

STOCK CODE

0524

Chairman's Statement

In 2001, amidst exceptionally difficult market conditions, e-Kong Group Limited (the "Company", together with its subsidiaries collectively referred to as the "Group") continued to develop its service businesses with significant growth mainly generated from the ZONE telecom business. However, our investments in technology and Internet-related companies, were particularly affected by the general economic downturn and the continuing negative sentiment towards the technology sector.

Total turnover for the year 2001 was over HK\$264 million, a 164% increase over that of the previous year. ZONE businesses in the US, Hong Kong and Singapore accounted for 85% of this year's revenue. The majority of the future revenue growth for the Group is expected to derive from its ZONE business.

The Group reported a net loss of HK\$681 million for the year. The operating loss of HK\$253 million was predominantly due to costs incurred during the growth and expansion phase of the Group's businesses. This year's loss was mainly attributable to non-recurring losses of HK\$427 million which included HK\$312 million resulting from a decrease in the valuation of the Group's investments and HK\$115 million from write-offs of intangible assets and goodwill. The Group has taken a prudent approach to provision for devaluation of its investments in order to reflect their fair market value.

In 2001, the Company underwent certain changes to its shareholding structure and Board composition. In December 2001, the Company successfully completed a two-for-one rights issue and raised net proceeds of approximately HK\$128 million. Following the rights issue, Mr. Kuldeep Saran and Mr. William Bruce Hicks, who are also directors of SUNDAY Communications Limited, increased their stake in the Company to about 4.0% and 4.5% respectively and were subsequently invited to join the Board. Also, after completion of the rights issue, I became a substantial shareholder and the single largest shareholder of the Company.

During 2001, Messrs. Mokhzani Mahathir, Ong Soon Kiat, Peng Chian Chua, Fung Che Kwong, Ngan Chor Man and Johnson Chan resigned from the Board. Messrs. Shane Frederick Weir, Matthew Brian Rosenberg, Chong Ching Lai (who subsequently resigned in January 2002), Kuldeep Saran and William Bruce Hicks were appointed to the Board. I am confident that the new board members will make considerable contributions toward achieving our business and corporate goals and in formulating the strategic direction for the Group.

For 2002, the Group anticipates that ZONE1511 in Hong Kong and Singapore will collectively contribute towards the positive cashflow of the Group. The Group aims to allocate a substantial portion of its available resources toward growing the ZONE business in the US as it believes that this market offers the most potential opportunity for growth.

Finally, on behalf of the board of directors, I wish to thank our business associates, shareholders and customers for their continuous support and also acknowledge our appreciation for the contribution and dedication of the Group's employees.

Richard John Siemens
Chairman

Hong Kong, 3 April 2002

Management Discussion and Analysis

FINANCIAL RESULTS

The Group's turnover recorded for the year was approximately HK\$263,896,000, a 164% increase as compared to HK\$100,125,000 for last year. 85% of the turnover was contributed by revenue from the ZONE telecommunication business during the year.

The operating loss of HK\$252,765,000 was due mainly to the costs incurred during the growth and expansion phase of the Group's businesses. The consolidated net loss attributable to shareholders was HK\$681,315,000 (2000: profit of HK\$1,302,000). The significant loss recorded was mainly attributable to the non-recurring losses of HK\$427,292,000 from write-offs of goodwill and intangible assets as well as unrealised holding losses and provisions for diminution in value of the Group's investments.

FINAL DIVIDEND

The Board has not recommended the payment of any final dividend for the year ended 31 December 2001 (2000: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The Group has managed to maintain stable liquidity with cash and cash equivalents of approximately HK\$118,456,000 (2000: HK\$412,988,000). The Group's liabilities under equipment lease financing amounted to HK\$16,257,000 (2000: HK\$582,000). The Group's overall gearing level was approximately 3% (2000: N/A). In addition, the Group had pledged deposits amounting to HK\$7,107,000 (2000: HK\$68,680,000). No bank borrowings were recorded during the year under review.

In December 2001, the Company raised net proceeds of approximately HK\$128,000,000 through a rights issue of 3,139,294,672 rights shares of HK\$0.02 each at a price of HK\$0.0425 per rights share (the "Rights Issue"). The net proceeds are being used for general working capital purposes, mainly for financing the ZONE business.

During the year, the Group mainly relied on its internal resources for its funding requirements. With the net proceeds raised from the Rights Issue, sufficient working capital will be provided for its present requirements.

EMPLOYEE REMUNERATION POLICY

At 31 December 2001, the Group employed 226 staff in Hong Kong and overseas, compared to 225 in 2000. The Group's remuneration policies continued to be in line with prevailing market practices and are formulated on the basis of the performance and experience of individual employees.

In addition to salary payment, other fringe benefits including training subsidies, provident fund and medical insurance are also offered to employees. The Company also granted share options to certain directors of the Company and certain employees of the Group to motivate their performance and contribution to the Group.

Management Discussion and Analysis (Cont'd)

BUSINESS REVIEW AND OUTLOOK

During this year the Group suffered considerable reductions in the valuation of its investments made in a number of technology and Internet-related companies. These losses were prompted by declines in the worldwide equity markets, negative sentiment towards the technology sector and continuing difficulties encountered by "new economy" businesses. The Group has therefore taken a prudent approach to provision for diminution of its investments and has also either written off or substantially written down most of its non-listed investments. The Group's investments in publicly-listed securities, originally deemed as long-term investments, have been appraised at current market values.

Nevertheless, the Group's flagship IDD and telecom business ZONE continues to experience steady and consistent growth. In the United States, ZONE completed the acquisition of certain assets of The Furst Group, Inc. in February 2001 and commercially launched its nationwide domestic long-distance and international telecommunication services in June 2001 under two brand names, viz. "ZoneLD" targeted at individuals and small businesses and "ZoneCMS" targeted at large corporations and enterprises. During this year, distribution relationships were also established with key on-line marketing partners in the United States. Some of the on-line marketing sites promoting "ZoneLD" services to individuals and small businesses are Yahoo!, Priceline.com and MSN. An in-house sales team and external value-added resellers are used to penetrate the large corporation and enterprise markets. ZONE's US operations accounted for 43% of the Group's total revenue for this year and this is expected to increase further in the coming year.

In Hong Kong, ZONE1511's switch facilities were upgraded in August 2001 to accommodate the increase in International Direct Dial (IDD) traffic and to enable the introduction of new value-added services such as virtual global calling card and call-forwarding services. ZONE1511's website (www.zone1511.com) underwent extensive enhancements and incorporated additional self-service and on-line support functions. ZONE1511 has replaced a number of reseller partners with world-class carriers such as KDDi, SingTel, Teleglobe and Equant. ZONE1511 will strive to increase its market share, improve its gross margins and strengthen its business. It intends to accomplish this through further development of more innovative value-added services, expansion of its distribution channels and focusing on forging strategic partnerships.

ZONE1511's Singapore operation continued to grow in a highly competitive environment. ZONE1511 has remained competitive by maintaining lower operating costs while providing customers with choice, quality, reliability and value.

EventClicks, the Group's corporate management subsidiary, operates within the travel- and hospitality-related industries, whereby global air-travel and hotel occupancy suffered drastic declines since the events in the United States on 11 September 2001. A number of corporate clients postponed their business events and incentive trips due to safety concerns, resulting in a drop in booked revenue for the fourth quarter of 2001. However, we expect conference and events bookings to rebound and materialise during the second and third quarter of 2002.

Management Discussion and Analysis *(Cont'd)*

BUSINESS REVIEW AND OUTLOOK *(Cont'd)*

speed*insure*, the Group's on-line insurance services subsidiary, faced tough challenges while introducing its novel direct on-line approach into an agent-centric and tradition-bound market. As a result, speed*insure* scaled down its business expansion in an effort to reduce operating costs. By sustaining a steady stream of on-line business, speed*insure* has managed to operate self-sufficiently whilst maintaining good quality service standards for their new and repeat customers.

The Group will continue to capitalise on its distinct advantages, a key factor being the Group's use of technology to provide effective and efficient innovative solutions within each of our chosen businesses. Concurrently, as we grow our businesses, the Group will also enforce internal financial and management diligence to maintain and operate our businesses in a resourceful and cost-effective manner.

Derrick Francis Bulawa

Chief Executive Officer

Hong Kong, 3 April 2002

Directors' Report

The board of directors (the "Board") of the Company is pleased to present its report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of its principal subsidiaries are set out in note 11 to the financial statements.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and result by business activities and geographical area of operations for the year ended 31 December 2001 is set out in note 32 to the financial statements.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2001 are set out in the consolidated income statement on page 20.

The Board has not recommended the payment of any final dividend for the year ended 31 December 2001 (2000: Nil).

GROUP FINANCIAL SUMMARY

A summary of results, assets and liabilities of the Group for the last five financial years is set out on pages 58 and 59.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the aggregate turnover attributable to the five largest customers of the Group accounted for approximately 4% of the Group's total turnover for the year, and sales to the largest customer included therein amounted to approximately 3%.

The aggregate purchases attributable to the five largest suppliers accounted for approximately 35% of the Group's total purchases for the year, and purchases from the largest supplier included therein amounted to approximately 14%.

At no time during the year have the directors, their associates, nor those shareholders which, to the knowledge of the directors, own more than 5% of the Company's share capital, had any interest in the five largest customers and suppliers.

Directors' Report *(Cont'd)*

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group are set out in note 10 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 23 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Richard John Siemens <i>(Chairman)</i>	
Mr. Kuldeep Saran <i>(Deputy Chairman)</i>	(appointed on 18 December 2001)
Mr. Derrick Francis Bulawa	
Mr. Ong Soon Kiat	(resigned on 23 March 2001)
Mr. Lim Shyang Guey	

Non-executive Directors:

Mr. Mokhzani Bin Mahathir	(resigned on 3 May 2001)
Mr. Peng Chian Chua	(resigned on 25 April 2001)
Mr. Chong Ching Lai	(appointed on 8 June 2001 and resigned on 14 January 2002)
Mr. Ngan Chor Man *	(resigned on 25 April 2001)
Mr. Fung Che Kwong, Peter *	(resigned on 21 August 2001)
Mr. Johnson Chan *	(appointed on 23 March 2001 and resigned on 21 August 2001)
Mr. William Bruce Hicks	(appointed on 18 December 2001)
Mr. Shane Frederick Weir *	(appointed on 21 August 2001)
Mr. Matthew Brian Rosenberg *	(appointed on 21 August 2001)

* *Independent Non-executive Directors*

In accordance with the Articles 86 and 87 of the Company's Bye-laws, Messrs. Lim Shyang Guey, Kuldeep Saran, William Bruce Hicks, Shane Frederick Weir and Matthew Brian Rosenberg shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' Report (Cont'd)

DIRECTORS' INTERESTS IN SECURITIES

At 31 December 2001, the directors had the following interests in the issued share capital and share options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Section 28 of the SDI Ordinance or the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") or as recorded in the register maintained pursuant to Section 29 of the SDI Ordinance:

Interests in shares of the Company

Name of director	Number of ordinary shares of HK\$0.02 each held			Total interests
	Personal interests	Corporate interests	Other interests	
Mr. Richard John Siemens	–	513,529,500 <i>(notes 1 and 2)</i>	–	513,529,500
Mr. William Bruce Hicks	23,199,142	186,837,500 <i>(note 3)</i>	–	210,036,642
Mr. Kuldeep Saran	3,412,000	183,537,500 <i>(note 4)</i>	–	186,949,500
Mr. Shane Frederick Weir	100,000	–	–	100,000

Notes:

1. During the year, 403,529,500 shares were subscribed under a rights issue of 3,139,294,672 rights shares of HK\$0.02 each at a price of HK\$0.0425 per rights share (the "Rights Issue").
2. 24,000,000 shares are beneficially owned by Siemens Enterprises Limited, a company controlled by Mr. Richard John Siemens. 489,529,500 shares are beneficially owned by Goldstone Trading Limited, a company controlled by Mr. Siemens.
3. 186,837,500 shares are beneficially owned by Great Wall Holdings Limited, a company controlled by Mr. William Bruce Hicks.
4. 183,537,500 shares are beneficially owned by Future (Holdings) Limited, a company controlled by Mr. Kuldeep Saran.

Directors' Report *(Cont'd)*

DIRECTORS' INTERESTS IN SECURITIES *(Cont'd)*

Interests in share options of the Company

- (a) A summary of movements in share options granted during the year to directors and eligible employees under the Company's employee share option scheme (the "Scheme"), which particulars are further described under the heading of Share Option Schemes below, and their share options remaining outstanding at 31 December 2001 were as follows:

Director	Date of grant	Exercisable period	Adjusted exercise price (note 1) HK\$	Number of share options				At 31 December 2001
				At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	
Mr. Richard John Siemens	24.01.2000	24.01.2000-24.10.2009	0.23	28,700,000	-	-	-	28,700,000
Mr. Derrick Francis Bulawa	25.10.1999	25.10.2000-24.10.2009	0.14	23,961,235	-	-	-	23,961,235
	16.11.1999	16.11.2000-24.10.2009	0.16	4,750,000	-	-	-	4,750,000
	23.12.1999	23.12.2000-24.10.2009	0.20	250,000	-	-	-	250,000
	03.01.2000	03.01.2001-24.10.2009	0.23	25,000	-	-	-	25,000
	25.10.2000	25.10.2001-24.10.2009	0.12	9,532,274	-	-	-	9,532,274
								38,518,509
Mr. Lim Shiyang Guey	25.10.1999	25.10.2000-24.10.2009	0.14	4,500,000	-	-	-	4,500,000
	24.01.2000	21.02.2000-24.10.2009	0.23	1,500,000	-	-	-	1,500,000
	25.01.2000	01.03.2000-24.10.2009	0.23	500,000	-	-	-	500,000
	03.03.2000	03.04.2000-24.10.2009	0.76	3,800,000	-	-	-	3,800,000
								10,300,000

Directors' Report (Cont'd)

DIRECTORS' INTERESTS IN SECURITIES (Cont'd)

Interests in share options of the Company (Cont'd)

(a) (Cont'd)

Date of grant	Exercisable period	Adjusted exercise price (note 1) HK\$	Number of share options				
			At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2001
Employees							
25.10.1999	25.10.2000-24.10.2009	0.14	13,650,000	-	-	-	13,650,000
16.11.1999	16.11.2000-24.10.2009	0.16	1,295,000	-	(8,000)	(1,212,000)	75,000 (note 2)
23.12.1999	23.12.2000-24.10.2009	0.20	3,700,000	-	-	-	3,700,000
03.01.2000	03.01.2001-24.10.2009	0.23	3,000,000	-	-	-	3,000,000
24.01.2000	21.02.2000-24.10.2009	0.23	6,135,000	-	-	(135,000)	6,000,000
25.01.2000	01.03.2000-24.10.2009	0.23	2,000,000	-	-	-	2,000,000
03.03.2000	03.04.2000-24.10.2009	0.76	15,200,000	-	-	-	15,200,000
03.03.2000	03.03.2001-24.10.2009	0.76	3,650,000	-	-	(500,000)	3,150,000
28.04.2000	28.04.2001-24.10.2009	0.33	5,975,000	-	-	(1,060,000)	4,915,000
01.06.2000	01.06.2001-24.10.2009	0.34	250,000	-	-	(250,000)	-
09.08.2000	09.08.2001-24.10.2009	0.23	1,000,000	-	-	(450,000)	550,000
25.10.2000	25.10.2001-24.10.2009	0.12	840,000	-	-	(440,000)	400,000
16.05.2001	16.05.2001-01.04.2003	0.08	-	200,000	-	-	200,000 (note 3)
							52,840,000
TOTAL			134,213,509	200,000	(8,000)	(4,047,000)	130,358,509 (note 4)

Directors' Report *(Cont'd)*

DIRECTORS' INTERESTS IN SECURITIES *(Cont'd)*

Interests in share options of the Company *(Cont'd)*

(a) *(Cont'd)*

During the year, no share options were granted to or exercised by the directors of the Company under the Scheme.

Notes:

1. The exercise price per share option was adjusted by the multiplier of 0.3320 in January 2002 as a result of the completion of the Rights Issue.
2. The weighted average closing market price per share immediately before the date on which the 8,000 share options were exercised was approximately HK\$0.387.
3. The closing market price per share at the date preceding the date on which the 200,000 share options were granted was HK\$0.32.
4. The total of 4,047,000 share options lapsed during the year upon cessation of employment of certain employees.
5. The above options granted are not recognised in the accounts until they are exercised. Rule 17.08 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its annual report and interim report the value of options granted to participants as referred to in (i) to (v) of Rule 17.07 during the financial year. The Directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to the shareholders. The directors therefore consider the disclosure of only the relevant market price and exercise price, which are readily ascertainable, will be appropriate.

- (b) No share options were granted under any of the employee share option schemes of certain subsidiaries of the Company, which particulars are further described under the heading of Share Option Schemes below.

Save as disclosed above, none of the directors, chief executive and/or any of their associates had any interests in the issued share capital of the Company or any of its associated corporations (as defined in the SDI Ordinance) at 31 December 2001 pursuant to the SDI Ordinance and the Model Code.

ARRANGEMENT TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

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

Directors' Report (Cont'd)

DIRECTORS' SERVICE CONTRACTS

The Company has entered into service contracts with independent non-executive directors who have been appointed for an initial period of one year commencing on 1 January 2002.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDER

At 31 December 2001, according to the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance, the Company was notified that the following shareholder had or was deemed to have an interest of 10% or more of the Company's issued share capital.

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

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

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital at 31 December 2001.

SHARE CAPITAL

Details of movements in the Company's share capital during the year and the purpose of the shares issued are set out in note 21 to the financial statements.

SHARE OPTION SCHEMES

- (a) In accordance with the Scheme which was adopted in a special general meeting held on 25 October 1999, the directors of the Company may, at their discretion, invite eligible employees of the Group, including executive directors of the Company, to take up options to subscribe for shares in the Company under the terms and conditions set out therein for purpose of attracting and retaining high calibre employees and motivating them to higher level of performance in order to enhance long-term shareholder value.

Directors' Report *(Cont'd)*

SHARE OPTION SCHEMES *(Cont'd)*

Summary of principal terms of the Scheme are as follows:–

(i) Maximum number of shares available for issue under the Scheme

The maximum number of the shares in respect of which share options may be granted (together with share options exercised and share options then outstanding) at any time under the Scheme will be such number of shares, when aggregated with shares subject to any other scheme, as shall represent 10% of the issued share capital of the Company from time to time (excluding for this purpose any shares which have been duly allotted and issued pursuant to this Scheme). At year ended 2001, 318,418,005 shares were available for issue under the Scheme and it represented 6.78% of the total issued share capital of the Company.

No qualifying participant shall be granted an option which, if exercised in full, would result in such person's maximum entitlement exceeding 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

(ii) Period and payment on acceptance of share options

Under the Scheme, an offer may be accepted by an employee in respect of shares for which they are offered to such employee when the duplicate letter comprising acceptance of the offer duly signed by the employee together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof is payable on acceptance of the offer within 28 days from the offer date.

(iii) Basis of determining the exercise price

The subscription price for the Company's shares under the Scheme is determined by the Board and shall not be less than 80% of the average of the closing prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options or the nominal value of the Company's shares, whichever is the higher.

(iv) Remaining life of the Scheme

The Board shall be entitled at any time within 10 years between 25 October 1999 and 24 October 2009 to offer the grant of an option to any qualifying participants.

- (b) During the year, certain subsidiaries of the Company adopted employee share option schemes ("Subsidiary Schemes"), each in terms and conditions as adopted and approved in a special general meeting of the Company held on 25 April 2001, whereby certain directors and chief executive of the Company, who are also directors of these subsidiaries, are eligible under Subsidiary Schemes to subscribe for shares in the respective subsidiaries under the terms and conditions stipulated therein. No share option has ever been granted in any of the Subsidiary Schemes since adoption.

Directors' Report *(Cont'd)*

PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars regarding the principal subsidiaries of the Company are set out in note 11 to the financial statements.

LIQUIDITY

The Group has managed to maintain stable liquidity with cash and cash equivalents of approximately HK\$118,456,000 (2000: HK\$412,988,000).

BANK LOANS AND OVERDRAFTS

The Group has no bank loans or overdrafts at 31 December 2001. There was no interest capitalised by the Group during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

RETIREMENT BENEFITS SCHEMES

Since December 2000, the Group, other than overseas subsidiaries, has operated a Mandatory Provident Fund Scheme ("MPF Scheme") under the rules and regulations of the Mandatory Provident Fund Schemes Ordinance for all qualifying employees. The assets of the MPF Scheme are held separately from those of the Group and are under the control of an independent trustee. Under the MPF Scheme, both the Group and each of the qualifying employees are required to make monthly contributions at 5% of the qualifying employee's basic monthly income, up to a maximum of HK\$1,000 each per month. The employees may also choose to make voluntary matching contribution above the said maximum level. The contributions which are made based on percentage of employees' income and charged to the income statement represent contributions payable to the MPF Scheme by the Group, other than overseas subsidiaries, to funds at rates specified in the rules of the MPF Scheme.

The overseas subsidiaries have also operated their pension schemes, or similar arrangement, for their employees in accordance with the statutory limits prescribed by the relevant legal requirements.

PARTICULARS OF DIRECTORS

Biographical details of directors of the Company are set out on pages 17 to 18 under Directors' Profile.

REMUNERATION POLICIES AND EMPLOYEE RELATIONS

At 31 December 2001, the Group employed 226 full-time employees. The Group has maintained good relationships with its employees. None of the Group's employees are represented by a labour union.

Directors' Report *(Cont'd)*

CODE OF BEST PRACTICE

In the opinion of the directors, save and except that the independent non-executive directors were not appointed for a specific term during the year but were subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's Bye-laws, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the year ended 31 December 2001.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the audited financial statements for the year ended 31 December 2001.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda although there are no restrictions against such rights under the laws of Bermuda.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint the auditors, Messrs. Moores Rowland, *Chartered Accountants, Certified Public Accountants*.

On behalf of the Board
Richard John Siemens
Chairman

Hong Kong, 3 April 2002

Directors' Profile

Executive Directors

Mr. Richard John Siemens, 57, Chairman, joined the Group in January 2000. Mr. Siemens is a founding member, Co-Chairman and Executive Director of SUNDAY Communications Limited. Mr. Siemens is also the Chairman and a founding member of Distacom Communications Limited. He has been involved in the telecommunications industry for almost 30 years. Born and raised in Canada, Mr. Siemens was trained as a Chartered Accountant and came to Hong Kong in 1979. In 1984, he was involved in the establishment of Hutchison Telephone Company Limited with Hutchison Whampoa and Motorola. Mr. Siemens, as Group Managing Director of Hutchison Telecommunications Limited, was also involved in the establishment of other well-known companies including AsiaSat, STAR TV and Metro Radio and Hutchison's move into the European wireless business with "Orange", as well as Hutchison's European telecom strategy.

Mr. Kuldeep Saran, 50, was appointed as Deputy Chairman and Executive Director of the Company in December 2001. Mr. Saran is also an Executive Director of SUNDAY Communications Limited and Distacom Communications Limited. After obtaining his M.B.A. in 1977, Mr. Saran joined the Tata Group of India. Between 1984 and 1986, Mr. Saran worked at Sony Corporation in India and in 1987 he was appointed Country Head of Motorola in India. In 1992, Mr. Saran was Director of Planning and New Business of Hutchison Telecommunications in Hong Kong. He was involved in the execution of Hutchison Telecommunications' new business in the United Kingdom, Thailand, Malaysia and India. He also was a member of the development team for Hutchison Telecommunications' business in Taiwan and the PRC. Mr. Saran joined Deutsche Bank in 1994 as head of the telecommunications group (Asia Pacific).

Mr. Derrick Francis Bulawa, 38, joined the Group in September 1999 as Chief Executive Officer and was appointed in October 1999 as Executive Director. As CEO of the Company, Mr. Bulawa oversees the development and execution of the Group's unique vision for convergent services. He is also the Group's chief strategist and his responsibilities include paying personal attention to investor relations and the Group's worldwide services businesses. Mr. Bulawa was among the key founders of STAR TV and also served as Chief Operating Officer for the US based UNIFI Communications where he worked extensively in the Asian satellite, data and telecommunications sectors. He has more than 16 years of entrepreneurial and communications experience in the United States and Asia. Mr. Bulawa received his Bachelor of Science degree in Electronic Engineering Technology from the DeVry Institute of Technology in the United States.

Mr. Lim Shyang Guey, 42, was appointed as Executive Director and Vice-President of Corporate Development of the Company in October 1999. Mr. Lim is responsible for executing the Group's corporate strategy and overseeing major shareholder and investor issues. He also plays an active role as Executive Director on the Company's Board of Directors and was one of the core creators of the Group's unique business vision. He has more than 13 years of experience in telecommunications and information technology in various countries including New Zealand, Russia, Malaysia and Singapore. Mr. Lim holds a Bachelor of Engineering degree and a Master of Engineering degree, both from the University of Auckland in New Zealand.

Directors' Profile *(Cont'd)*

Non-executive Directors

Mr. William Bruce Hicks, 40, was appointed as Non-executive Director of the Company in December 2001. Mr. Hicks is the Group Managing Director of SUNDAY Communications Limited. He has been a partner of Distacom Communications Limited since 1994 and currently serves as an Executive Director and the Distacom group's Chief Technology Officer. Prior to joining Distacom, Mr. Hicks was with Hutchison Telecom, where he was responsible for technical operations in Hong Kong and actively involved in new business development in Asia and Europe. Mr. Hicks, a Canadian, began his career with Motorola Inc. in the United States. He received his B.S.E.E. degree from Michigan Technological University in 1983 and an M.B.A. from the International Management Institute in Geneva, Switzerland in 1987.

Mr. Shane Frederick Weir, 47, was appointed as Independent Non-executive Director of the Company in August 2001. Mr. Weir is a consultant of Weir & Associates, Solicitors & Notaries. Born and educated in Canada, Mr. Weir's practice as solicitor concentrates on corporate commercial tax and securities matters. He has practiced in Hong Kong since 1985 and for several years was employed in Hong Kong as an associate with Phillips & Vineberg, one of the oldest and most respected commercial law firms in North America. Mr. Weir qualified as a solicitor, barrister, and notary public in Canada in 1978 and was admitted as a solicitor in the United Kingdom as well as in Hong Kong in 1992.

Mr. Matthew Brian Rosenberg, 30, was appointed as Independent Non-executive Director of the Company in August 2001. Mr. Rosenberg is currently the Vice-President of International Sales & Operations for Global Scheduling Solutions ("GSS"). He comes to GSS with a diverse background spanning over 8 years in Internet & telecom technology, revenue driven channel management and strategic business planning. His international management experience spans both Asia and Europe, abilities in several languages, and success in developing business models and revenues in both regions of the world. He holds a Bachelor of Arts in Japanese and Spanish from the University of Amherst, Massachusetts.

Auditors' Report



To the members

e-Kong Group Limited

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 20 to 57 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Moores Rowland

Chartered Accountants

Certified Public Accountants

Hong Kong, 3 April 2002

Consolidated Income Statement

For the year ended 31 December 2001

	Note	2001 HK\$'000	2000 HK\$'000
Turnover	3	263,896	100,125
Cost of sales		(214,038)	(72,570)
Gross profit		49,858	27,555
Other revenue	3	4,216	28,861
Other net income	4	–	99,908
Distribution costs		(22,370)	(6,086)
Business promotion and marketing expenses		(31,166)	(43,623)
Operating and administrative expenses		(176,615)	(86,180)
Other operating expenses		(76,688)	(6,286)
(Loss)/Profit from operations		(252,765)	14,149
Finance costs	5	(1,216)	(140)
Intangible assets and goodwill written off	5 & 12	(114,795)	–
Provision for diminution in value of investment securities		(72,021)	(8,904)
Unrealised holding loss on other investments		(240,476)	–
Share of results of associates		(752)	(1,110)
(Loss)/Profit from ordinary activities before taxation	5	(682,025)	3,995
Taxation	7	–	(739)
(Loss)/Profit from ordinary activities after taxation		(682,025)	3,256
Minority interests		710	(1,954)
Net (loss)/profit attributable to shareholders	8 & 23	(681,315)	1,302
(Loss)/Earnings per share	9		
Basic		(35.12) cents	0.08 cent
Diluted		N/A	0.07 cent

Consolidated Statement of Recognised Gains and Losses

For the year ended 31 December 2001



	2001 HK\$'000	2000 HK\$'000
Exchange difference on translation of foreign subsidiaries	381	(388)
Exchange reserve released on disposal of subsidiaries	-	(1,117)
Goodwill previously eliminated directly against reserves written off to income statement	69,335	-
Other capital reserve and goodwill on consolidation released on disposal of subsidiaries	-	1,647
Net (loss)/profit for the year attributable to shareholders	(681,315)	1,302
Total recognised (losses)/gains	(611,599)	1,444
Goodwill on acquisition of subsidiaries eliminated directly against reserves	-	(7,134)
	(611,599)	(5,690)

Consolidated Balance Sheet

At 31 December 2001

	Note	2001 HK\$'000	2000 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	215,428	91,049
Intangible assets	12	–	42,366
Interests in associates	13	4,838	12,687
Investment securities	14	31,434	302,381
		251,700	448,483
Current assets			
Other investments	15	47,737	–
Properties held for sale		–	3,734
Inventories		–	978
Trade and other receivables	16	54,230	73,791
Pledged deposits	17	7,107	68,680
Cash and cash equivalents	18	111,349	344,308
		220,423	491,491
Current liabilities			
Trade and other payables	19	98,556	97,657
Current portion of obligations under finance leases	20	11,372	582
		109,928	98,239
Net current assets		110,495	393,252
Total assets less current liabilities		362,195	841,735
Long-term liabilities			
Obligations under finance leases	20	4,885	–
Minority interests		–	119
NET ASSETS		357,310	841,616
CAPITAL AND RESERVES			
Issued capital	21	103,665	40,879
Reserves	23	253,645	800,737
		357,310	841,616

Approved and authorised for issue by the Board of Directors on 3 April 2002

Richard John Siemens
Director

Derrick Francis Bulawa
Director

Balance Sheet

At 31 December 2001

	Note	2001 HK\$'000	2000 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	1,115	1,184
Interests in subsidiaries	11	515,300	537,034
Interests in associates	13	6,806	9,215
		523,221	547,433
Current assets			
Trade and other receivables	16	843	14,350
Pledged deposits	17	3,007	68,680
Cash and cash equivalents	18	90,577	319,439
		94,427	402,469
Current liabilities			
Trade and other payables	19	7,337	7,065
Net current assets		87,090	395,404
NET ASSETS		610,311	942,837
CAPITAL AND RESERVES			
Issued capital	21	103,665	40,879
Reserves	23	506,646	901,958
		610,311	942,837

Approved and authorised for issue by the Board of Directors on 3 April 2002

Richard John Siemens
Director

Derrick Francis Bulawa
Director

Consolidated Cash Flow Statement

For the year ended 31 December 2001

	Note	2001 HK\$'000	2000 HK\$'000
Net cash outflow from operating activities	24	(191,292)	(86,613)
Returns on investments and servicing of finance			
Interest received		4,216	28,795
Income from unlisted investments		-	66
Interest on obligations under finance leases		(1,216)	(140)
Net cash inflow from returns on investments and servicing of finance		3,000	28,721
Taxation			
Overseas tax paid		-	(212)
Investing activities			
Purchase of property, plant and equipment		(134,564)	(101,597)
Purchase of intangible assets		(4,313)	(42,748)
Purchase of investment securities and other investments		(131,294)	(206,946)
Proceeds from disposal of property, plant and equipment		1,181	1,235
Proceeds from disposal of other investments		23,200	-
Net (repayment)/advances from/to associates		7,195	(12,463)
Purchase of subsidiaries (net of cash and cash equivalents acquired)	26	(1,603)	(3,030)
Disposal of subsidiaries (net of cash and cash equivalents disposed)	27	15,000	(5,068)
Net cash outflow from investing activities		(225,198)	(370,617)
Net cash outflow before financing activities		(413,490)	(428,721)
Financing			
	28		
Issue of ordinary shares		127,293	742,046
Capital contributed by minority shareholders		591	-
Repayment of obligations under finance leases		(8,926)	(212)
Net cash inflow from financing		118,958	741,834
(Decrease)/Increase in cash and cash equivalents		(294,532)	313,113
Cash and cash equivalents at 1 January		412,988	99,875
Cash and cash equivalents at 31 December		118,456	412,988
Analysis of the balances of cash and cash equivalents			
Pledged deposits		7,107	68,680
Fixed deposits		4,000	317,762
Bank balances and cash		107,349	26,546
		118,456	412,988

Notes to the Financial Statements

For the year ended 31 December 2001

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its ordinary shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. PRINCIPAL ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below.

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost, as modified for revaluation of certain investments in securities as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December 2001.

The results of subsidiaries acquired or disposed of during the year are accounted for from the effective dates of acquisition or up to the effective dates of disposal respectively.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Goodwill on consolidation

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired.

In respect of subsidiaries acquired before 1 January 2001, the related positive goodwill has been eliminated against reserves and, as permitted by the SSAP 30, has not been restated. Provision for impairment losses has been made against such goodwill in accordance with SSAP 31. For subsidiaries acquired on or after 1 January 2001, the related positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is carried as an asset in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.

In respect of acquisitions of associates, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses is included in the carrying amount of the interest in associates.

Notes to the Financial Statements *(Cont'd)*

For the year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

Goodwill on consolidation *(Cont'd)*

Negative goodwill arising on acquisitions of subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. In respect of subsidiaries acquired before 1 January 2001, the related negative goodwill has been credited to capital reserve. For subsidiaries acquired on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill up to the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of depreciable non-monetary assets. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

On disposal of a subsidiary or an associate during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

Subsidiaries

A subsidiary is an enterprise, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. In the Company's balance sheet, investments in subsidiaries are stated at cost less provision.

Associates

An associate is an enterprise, in which the Group or the Company has significant influence and which is neither a subsidiary nor a joint venture of the Group or the Company. In the Company's balance sheet, investments in associates are stated at cost less provision, if necessary.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised as an income or expense in the income statement.

Notes to the Financial Statements *(Cont'd)*

For the year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

Property, plant and equipment *(Cont'd)*

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful life from the date on which they become fully operational and after taking into account their estimated residual values, using the straight-line method at the following rates per annum:

Leasehold improvement	Over the remaining lease term
Office equipment, furniture and fittings	10% – 33%
Machinery and equipment	10% – 33%

Intangible assets

Intangible assets comprise business assets acquired and goodwill arising on business combination (other than acquisition of a subsidiary or an associate) and are amortised over their estimated useful life. Business assets include mainly business plans, business contracts, copyrights, other intellectual property rights and customers list.

Investments in securities

Investment securities held for an identified long-term purpose are stated at cost and subject to impairment review at each reporting date to reflect any diminution in their value, which is expected to be other than temporary. The amount of provisions is recognised in the income statement in the period in which the decline occurs.

Securities not classified as investment securities are classified as other investments, which are stated at fair value in the balance sheet. The unrealised holding gains and losses for other investments are included in the income statement.

The gain or loss on disposal of investment securities and other investments is the difference between net sales proceeds and the carrying amount of the securities and is accounted for in the period in which the disposal occurs.

Impairment loss

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use, in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

Notes to the Financial Statements *(Cont'd)*

For the year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

Impairment loss *(Cont'd)*

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

Income in respect of telecommunications services provided to customers is recognised when the services are rendered.

Income in respect of corporate management services is recognised when the event management services are rendered.

Other income includes internet security solution services income, sale of computer hardware and software and insurance and management consulting income. Internet security solution services income and insurance and management consulting income are recognised in the period when the services are rendered. Sale of computer hardware and software is recognised when goods are delivered and title has passed.

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

Investment income is recognised when the Group's right to receive payment is established.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Notes to the Financial Statements *(Cont'd)*

For the year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

Operating leases

Rentals payable under operating leases are recognised as an expense on the straight-line basis over the lease terms. Lease incentives received are recognised in the income statement as an integral part of the net consideration agreed for the use of the leased asset. Contingent rentals are recognised as expenses in the accounting period in which they are incurred.

Foreign currencies

Transactions in foreign currencies are translated at the approximate rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the approximate rates of exchange ruling at that date. Translation differences are included in the income statement.

On consolidation, the financial statements of overseas subsidiaries denominated in currencies other than Hong Kong dollars, are translated at the approximate rates of exchange ruling at the balance sheet date. All exchange differences arising on consolidation are dealt with in the exchange reserve.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Cash equivalents

For the purpose of consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For balance sheet classification, cash equivalents represent assets similar in nature to cash which are not restricted as to use.

Related party

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

3. TURNOVER AND REVENUE

Turnover and revenue recognised by category are analysed as follows:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Telecommunication services income	224,162	63,740
Corporate management services income	34,912	1,284
Sale of animated films	–	23,473
Others	4,822	11,628
	263,896	100,125
Other revenue		
Interest income	4,216	28,795
Income from unlisted investments	–	66
	4,216	28,861
Revenue	268,112	128,986

4. OTHER NET INCOME

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gain on disposal of investment securities	–	76,051
Gain on disposal of discontinued operations	–	23,210
Gain on disposal of subsidiaries	–	311
Others	–	336
	–	99,908

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

5. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging:

	Group	
	2001	2000
	HK\$'000	HK\$'000
(a) Finance costs		
Finance charges on obligations under finance leases	1,216	140
(b) Other items		
Amortisation of intangible assets included in other operating expenses	2,471	1,163
Auditors' remuneration	1,182	1,000
Bad debts written off	27,237	42
Provision for doubtful debts	6,170	1,100
Cost of inventories and services provided	214,038	72,570
Depreciation of property, plant and equipment:		
Owned assets	29,937	10,508
Assets held under finance leases	2,197	-
Intangible assets and goodwill written off:		
Intangible assets	44,208	-
Goodwill	70,587	-
Loss on disposal of other investments	3,807	-
Loss on disposal of property, plant and equipment	1,471	152
Loss on disposal of properties held for sale	2,111	-
Operating lease charges on premises	12,612	2,685
Staff costs	122,423	46,228

6. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	2001	2000
	HK\$'000	HK\$'000
Fees	-	-
Salaries, other emoluments and other benefits in kind	4,211	3,960
	4,211	3,960

No fees or emoluments were paid to the independent non-executive directors during the year (2000: Nil).

Notes to the Financial Statements *(Cont'd)*

For the year ended 31 December 2001

6. DIRECTORS' AND SENIOR EXECUTIVES' REMUNERATION *(Cont'd)*

In additions to the above emoluments, certain directors were granted share options under the Company's employee share option scheme. Details of these benefits in kind are disclosed under the paragraph "Directors' Interests in Securities" in the Directors' Report.

In the absence of a ready market for the options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted to the respective directors.

The remuneration of directors was within the following bands:

<i>HK\$</i>	Number of directors	
	2001	2000
Nil	12	6
1,500,001 – 2,000,000	1	1
2,000,001 – 2,500,000	1	1
	14	8

No director waived or agreed to waive any remuneration during the year.

Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2000: two) were directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other three (2000: three) individuals were as follows:

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other emoluments	4,981	3,370
Severance payment	325	–
	5,306	3,370

<i>HK\$</i>	Number of individuals	
	2001	2000
Nil – 1,000,000	–	1
1,000,001 – 1,500,000	–	2
1,500,001 – 2,000,000	3	–
	3	3

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

7. TAXATION

Hong Kong Profits Tax has not been provided as the Group incurred a loss for taxation purposes for the year.

Taxation charge of HK\$739,000 for the year ended 31 December 2000 represented Peoples' Republic of China income tax calculated at the prevailing rate.

The major components of deferred taxation not (credited)/provided for the year are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Excess of tax allowances over depreciation	504	1,830
Tax losses	(60,412)	(17,952)
	(59,908)	(16,122)

8. NET (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net (loss)/profit attributable to shareholders includes a loss of the Company amounted to HK\$459,819,000 (2000: profit of HK\$31,713,000) which has been dealt with in the financial statements of the Company.

9. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2001 was based on the consolidated loss attributable to shareholders of HK\$681,315,000 (2000: profit of HK\$1,302,000) and on the weighted average number of 1,940,200,731 (2000: 1,731,573,250) ordinary shares in issue during the year.

The fully diluted loss per share for 2001 is not shown because the potential ordinary shares would decrease the loss per share and would be regarded as anti-dilutive.

The calculation of diluted earnings per share for 2000 was based on the consolidated profit attributable to shareholders of approximately HK\$1,302,000 and the diluted weighted average number of 1,825,717,799 ordinary shares. For the purposes of calculating the diluted weighted average number of shares, the dilutive potential ordinary shares resulting from the outstanding share options and convertible preference shares were deemed to be issued as if all outstanding options and convertible preference shares have been exercised on the date when the options and convertible preference shares were granted.

The comparative amount of the earnings per share and diluted earnings per share have been adjusted for the effect of the rights issue of 3,139,294,672 shares of the Company during the year.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

10. PROPERTY, PLANT AND EQUIPMENT

Group	Machinery and equipment <i>HK\$'000</i>	Leasehold improvement <i>HK\$'000</i>	Office equipment, furniture and fittings <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
At 1 January 2001	84,397	1,326	15,253	100,976
Additions	148,723	746	9,696	159,165
Disposals	(1,127)	(1,134)	(2,740)	(5,001)
At 31 December 2001	231,993	938	22,209	255,140
Accumulated depreciation				
At 1 January 2001	7,092	302	2,533	9,927
Charge for the year	25,386	267	6,481	32,134
Disposals	(844)	(337)	(1,168)	(2,349)
At 31 December 2001	31,634	232	7,846	39,712
Net book value				
At 31 December 2001	200,359	706	14,363	215,428
At 31 December 2000	77,305	1,024	12,720	91,049

The net book value of the Group's property, plant and equipment includes an amount of HK\$22,262,000 (2000: HK\$794,000) in respect of assets held under finance leases.

Company	Leasehold improvement <i>HK\$'000</i>	Office equipment, furniture and fittings <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1 January 2001	11	1,625	1,636
Additions	–	534	534
Disposals	–	(130)	(130)
At 31 December 2001	11	2,029	2,040
Accumulated depreciation			
At 1 January 2001	4	448	452
Charge for the year	7	510	517
Disposals	–	(44)	(44)
At 31 December 2001	11	914	925
Net book value			
At 31 December 2001	–	1,115	1,115
At 31 December 2000	7	1,177	1,184

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

11. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	–	–
Due from subsidiaries	816,300	537,034
Less: Provision	(301,000)	–
	515,300	537,034

Details of the principal subsidiaries at the balance sheet date are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid up share capital	Percentage of share capital held by the Company		Principal activities
			Directly	Indirectly	
ZONE Group Inc.	Cayman Islands	US\$100	–	100%	Investment holding
ZONE Global Limited	British Virgin Islands	US\$1	–	100%	Investment holding
ZONE Limited	Hong Kong	HK\$2	–	100%	Provision of telecommunication services
ZONE Telecom Pte Ltd	Singapore	S\$100,000	–	100%	Provision of telecommunication services
ZONE USA, Inc.	United States of America	US\$10	–	100%	Investment holding
ZONE Telecom, Inc.	United States of America	US\$10	–	100%	Provision of telecommunication services
E-Force Limited	Hong Kong	HK\$2	–	100%	Asset holding

Notes to the Financial Statements *(Cont'd)*

For the year ended 31 December 2001

11. INTERESTS IN SUBSIDIARIES *(Cont'd)*

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid up share capital	Percentage of share capital held by the Company		Principal activities
			Directly	Indirectly	
EventClicks Global Limited	British Virgin Islands	US\$1,075,269	–	93%	Investment holding
EventClicks Limited	Hong Kong	HK\$500,000	–	93%	Provision of corporate management services
EventClicks Singapore Pte Limited	Singapore	S\$2	–	93%	Provision of corporate management services
speedinsure Global Limited	British Virgin Islands	US\$10,000	–	70%	Investment holding
speedinsure.com Limited	Hong Kong	HK\$10,000	–	70%	Provision of sales and fulfillment solution
speedinsure Singapore Pte Ltd	Singapore	S\$2	–	70%	Provision of sales and fulfillment solution
Cyber Insurance Brokers Limited	Hong Kong	HK\$5,000,000	–	70%	Insurance brokerage
magictel.com Limited	Hong Kong	HK\$1,000	–	100%	Provision of telecommunication services
NETdefence Company Limited	Hong Kong	HK\$10,000	–	51%	Provision of internet security solution

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

11. INTERESTS IN SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid up share capital	Percentage of share capital held by the Company		Principal activities
			Directly	Indirectly	
China Portal Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Crystal Kingdom Limited	British Virgin Islands	US\$1	100%	–	Investment holding
e-Kong Services Limited	British Virgin Islands	US\$1	–	100%	Investment holding
e-Kong Pillars Holdings Limited	British Virgin Islands	US\$1	–	100%	Investment holding
e-Kong Pillars Limited	British Virgin Islands	US\$1	–	100%	Investment holding
e-Kong Ventures Limited	British Virgin Islands	US\$1	–	100%	Investment holding

The above summary includes those subsidiaries of the Company which, in the opinion of the Company's directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

12. INTANGIBLE ASSETS

	Group	
	2001 HK\$'000	2000 HK\$'000
At 1 January		
Opening carrying amount	42,366	781
Additions	4,313	42,748
Amortisation charge	(2,471)	(1,163)
Write-off	(44,208)	-
Closing carrying amount		
At 31 December	-	42,366
At 31 December		
Cost	-	43,529
Accumulated amortisation	-	(1,163)
Closing carrying amount	-	42,366

The write-off of the intangible assets during the year related to business assets and goodwill on business combination in respect of the telecommunication business.

In view of the depressed market for information technology, Internet related businesses and global telecommunication business, the management considered that impairment losses on the intangible assets had occurred and should be recognised during the year.

13. INTERESTS IN ASSOCIATES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Share of net assets	(1,911)	(1,257)	-	-
Due from associates	6,749	13,944	6,806	9,215
	4,838	12,687	6,806	9,215

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

13. INTERESTS IN ASSOCIATES (Cont'd)

Details of associates, all of which are unlisted corporate entities, at the balance sheet date are as follow:

Name of associate	Place of incorporation/ operation	Issued and fully paid up share capital	Percentage of share capital held by the Company		Principal activities
			Directly	Indirectly	
CIB (Holdings) Limited	British Virgin Islands	US\$1,000	–	28%	Investment holding
Cyber Insurance Brokers (S) Pte Ltd.	Singapore	S\$450,000	–	28%	Insurance brokerage

14. INVESTMENT SECURITIES

	Group	
	2001 HK\$'000	2000 HK\$'000
At cost less provision:		
Equity securities, unlisted	31,434	133,456
Equity securities, listed outside Hong Kong	–	168,925
	31,434	302,381
Market value of listed securities	–	169,642

15. OTHER INVESTMENTS

	Group	
	2001 HK\$'000	2000 HK\$'000
At fair value:		
Equity securities at market value, listed outside Hong Kong	16,560	–
Securities portfolio, unlisted	31,177	–
	47,737	–

The securities portfolio is made up of listed securities.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

16. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade receivables	37,943	36,368	-	-
Other receivables				
Deposits, prepayments and other debtors	16,287	37,423	843	14,350
	54,230	73,791	843	14,350

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Current	29,048	23,735
1 to 3 months	5,922	10,736
More than 3 months but less than 12 months	2,973	1,897
	37,943	36,368

17. PLEDGED DEPOSITS

At the balance sheet date, the Group and the Company had pledged deposits amounting HK\$7,107,000 (2000: HK\$68,680,000) and HK\$3,007,000 (2000: HK\$68,680,000) respectively to banks for guarantee.

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank balances and cash	107,349	26,546	90,577	6,677
Time deposits	4,000	317,762	-	312,762
	111,349	344,308	90,577	319,439

Notes to the Financial Statements (Cont'd)
For the year ended 31 December 2001

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade payables	42,041	17,783	-	-
Other payables				
Accrued charges and other creditors	56,515	78,378	2,816	477
Due to subsidiaries	-	-	4,521	5,092
Due to an associate	-	1,496	-	1,496
	98,556	97,657	7,337	7,065

Included in trade and other payables are trade creditors with the following ageing analysis.

	Group	
	2001 HK\$'000	2000 HK\$'000
Current	12,617	7,244
1 to 3 months	16,580	8,525
More than 3 months but less than 12 months	12,844	2,014
	42,041	17,783

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

20. OBLIGATIONS UNDER FINANCE LEASES

The obligations under finance leases are repayable as follows:

	Group			
	Minimum lease payments		Present value of minimum lease payments	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Within one year	12,555	617	11,372	582
After 1 year but within 2 years	5,123	-	4,885	-
	17,678	617	16,257	582
Future finance charges	(1,421)	(35)	-	-
Present value of lease obligations	16,257	582	16,257	582

21. ISSUED CAPITAL

	2001		2000	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Authorised		HK\$'000		HK\$'000
Preference shares of HK\$1 each				
At 1 January and at 31 December	288,929,402	288,929	288,929,402	288,929
Ordinary shares of HK\$0.02 each				
At 1 January	3,000,000,000	60,000	1,500,000,000	30,000
Increase of ordinary shares	3,000,000,000	60,000	1,500,000,000	30,000
At 31 December	6,000,000,000	120,000	3,000,000,000	60,000
Total		408,929		348,929

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

21. ISSUED CAPITAL (Cont'd)

	2001		2000	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Issued and fully paid				
Preference shares of HK\$1 each				
At 1 January	9,680,000	9,680	170,970,968	170,971
Converted to ordinary shares	—	—	(161,290,968)	(161,291)
At 31 December	9,680,000	9,680	9,680,000	9,680
Ordinary shares of HK\$0.02 each				
At 1 January	1,559,959,336	31,199	1,159,449,380	23,189
Issue of ordinary shares	3,139,294,672	62,786	230,000,000	4,600
Converted from preference shares	—	—	161,290,968	3,226
Exercise of share options	8,000	—	9,218,988	184
At 31 December	4,699,262,008	93,985	1,559,959,336	31,199
Total		103,665		40,879

- (a) By an ordinary resolution passed at a special general meeting on 23 November 2001, the authorised ordinary share capital of the Company was increased to HK\$120,000,000 by the creation of 3,000,000,000 additional ordinary shares of HK\$0.02 each.
- (b) In April 2001, share options were exercised to subscribe for 8,000 ordinary shares of HK\$0.02 each in the Company at a consideration of HK\$3,920.

In December 2001, 3,139,294,672 new ordinary shares of HK\$0.02 each were issued by way of a rights issue on the basis of two rights shares for every one existing ordinary share, and two rights shares for every one convertible preference share held, at an issue price of HK\$0.0425 per share (the "Rights Issue"). The net proceeds of the Rights Issue are used for providing additional working capital of the Group.

All the new ordinary shares issued during the year rank pari passu in all aspects with the existing ordinary shares of the Company.

Notes to the Financial Statements *(Cont'd)*

For the year ended 31 December 2001

21. ISSUED CAPITAL *(Cont'd)*

- (c) According to the provisions of the Company's Bye-laws and the conditions of the issue of the preference shares, the holders of preference shares are entitled to convert all or any of the preference shares into fully paid ordinary shares on the basis of one ordinary share of HK\$0.02 each for every HK\$1 in nominal value of preference shares so converted. In each year the preference shares may be converted on any of the following dates:
- (i) the date falling on the 30th day after the date on which the audited financial statements of the Company for the last preceding accounting period are despatched to the holders of the preference shares; or
 - (ii) the date falling on the 30th day after the date on which the interim results of the Company in respect of any current accounting period are announced; or
 - (iii) such other dates as may be notified in writing by the directors to the holders of the preference shares not less than 30 days before such date.

In addition, as resolved by the directors on 16 December 1998, the preference shares may be converted on every second Wednesday and every last Wednesday of each month, and if such date is not a business day, on the next business day.

The Company may in accordance with the Companies Act of Bermuda and subject to the provisions of the Company's Bye-laws determine to redeem the relevant shares on any conversion date for a sum equal to (i) the nominal capital paid up or credited as paid up thereon; (ii) a fixed premium equal to five percent of the amount of such nominal capital; and (iii) outstanding dividends, out of funds of the Company which would otherwise be available for dividend or distribution to the holders of any class of share or out of the proceeds of a new issue of ordinary share.

22. SHARE OPTIONS

- (a) In accordance with the Company's employee share option scheme (the "Scheme") which was adopted in a special general meeting held on 25 October 1999, the directors of the Company may, at their discretion, invite eligible employees, including executive directors of the Company, to take up share options to subscribe for shares in the Company. Any share option granted can be exercised within the period as set out in the terms and conditions for the Scheme. The subscription price for the Company's share under the Scheme is determined by the board of directors and shall not be less than the higher of 80% of the average of the closing market prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options or the nominal value of the Company's shares.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

22. SHARE OPTIONS (Cont'd)

(a) (Cont'd)

Details of the share options granted by the Company under the Scheme and the share options outstanding at 31 December 2001 are set out as follows:-

Date of grant	Exercisable period	Adjusted exercise price HK\$	Number of share options				At 31 December 2001
			At 1 January 2001	Granted during the year	Exercised during the year	Lapsed during the year	
25.10.1999	25.10.2000-24.10.2009	0.14	42,111,235	-	-	-	42,111,235
16.11.1999	16.11.2000-24.10.2009	0.16	6,045,000	-	(8,000)	(1,212,000)	4,825,000
23.12.1999	23.12.2000-24.10.2009	0.20	3,950,000	-	-	-	3,950,000
03.01.2000	03.01.2001-24.10.2009	0.23	3,025,000	-	-	-	3,025,000
24.01.2000	24.01.2000-24.10.2009	0.23	28,700,000	-	-	-	28,700,000
24.01.2000	21.02.2000-24.10.2009	0.23	7,635,000	-	-	(135,000)	7,500,000
25.01.2000	01.03.2000-24.10.2009	0.23	2,500,000	-	-	-	2,500,000
03.03.2000	03.04.2000-24.10.2009	0.76	19,000,000	-	-	-	19,000,000
03.03.2000	03.03.2001-24.10.2009	0.76	3,650,000	-	-	(500,000)	3,150,000
28.04.2000	28.04.2001-24.10.2009	0.33	5,975,000	-	-	(1,060,000)	4,915,000
01.06.2000	01.06.2001-24.10.2009	0.34	250,000	-	-	(250,000)	-
09.08.2000	09.08.2001-24.10.2009	0.23	1,000,000	-	-	(450,000)	550,000
25.10.2000	25.10.2001-24.10.2009	0.12	10,372,274	-	-	(440,000)	9,932,274
16.05.2001	16.05.2001-01.04.2003	0.08	-	200,000	-	-	200,000
TOTAL			134,213,509	200,000	(8,000)	(4,047,000)	130,358,509

The exercise price per share option was adjusted by the multiplier of 0.3320 in January 2002 as a result of completion of the Rights Issue.

(b) During the year, certain subsidiaries of the Company adopted employee share option schemes ("Subsidiary Schemes"), each in terms and conditions as adopted and approved in a special general meeting of the Company held on 25 April 2001, whereby certain directors and chief executive of the Company, who are also directors of these subsidiaries, are eligible under Subsidiary Schemes to subscribe for shares in the respective subsidiaries under the terms and conditions stipulated therein. No share option has ever been granted in any of the Subsidiary Schemes since adoption.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

23. RESERVES

	Share premium HK\$'000	Exchange reserve HK\$'000	Capital redemption reserve HK\$'000	Other capital reserve HK\$'000	Goodwill on conso- lidation HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Group							
At 1 January 2000	227,407	1,117	6	(1,087)	(62,761)	(253,582)	(88,900)
Share issue	912,221	-	-	-	-	-	912,221
Share issue expenses	(16,894)	-	-	-	-	-	(16,894)
Release on disposal of subsidiaries	-	(1,117)	-	1,087	560	-	530
Exchange difference on translation of foreign subsidiaries	-	(388)	-	-	-	-	(388)
Goodwill on acquisition of subsidiaries	-	-	-	-	(7,134)	-	(7,134)
Net profit attributable to shareholders	-	-	-	-	-	1,302	1,302
At 31 December 2000	1,122,734	(388)	6	-	(69,335)	(252,280)	800,737
Share issue	70,638	-	-	-	-	-	70,638
Share issue expenses	(6,131)	-	-	-	-	-	(6,131)
Exchange difference on translation of foreign subsidiaries	-	381	-	-	-	-	381
Goodwill on consolidation written off	-	-	-	-	69,335	-	69,335
Net loss attributable to shareholders	-	-	-	-	-	(681,315)	(681,315)
At 31 December 2001	1,187,241	(7)	6	-	-	(933,595)	253,645
Company							
At 1 January 2000	227,407	-	6	-	-	(252,495)	(25,082)
Share issue	912,221	-	-	-	-	-	912,221
Share issue expenses	(16,894)	-	-	-	-	-	(16,894)
Net profit attributable to shareholders	-	-	-	-	-	31,713	31,713
At 31 December 2000	1,122,734	-	6	-	-	(220,782)	901,958
Share issue	70,638	-	-	-	-	-	70,638
Share issue expenses	(6,131)	-	-	-	-	-	(6,131)
Net loss attributable to shareholders	-	-	-	-	-	(459,819)	(459,819)
At 31 December 2001	1,187,241	-	6	-	-	(680,601)	506,646

There were no reserves available for distribution as at 31 December 2001 (2000: Nil).

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

24. RECONCILIATION OF (LOSS)/PROFIT BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
(Loss)/Profit before taxation	(682,025)	3,995
Interest income	(4,216)	(28,795)
Income from unlisted investments	–	(66)
Interest on obligations under finance leases	1,216	140
Depreciation	32,134	10,508
Loss on disposal of property, plant and equipment	1,471	152
Intangible assets and goodwill written off	114,795	–
Unrealised holding loss on other investments	240,476	–
Provision for diminution in value of investment securities	72,021	8,904
Share of results of associates	752	1,110
Amortisation of long-term investments	–	1,000
Bad debts written off	27,237	42
Provision for doubtful debts	6,170	1,100
Loss on disposal of other investments	3,807	–
Gain on disposal of subsidiaries	–	(23,521)
Gain on disposal of investment securities	–	(76,051)
Amortisation of intangible assets	2,471	1,163
Changes in working capital:		
Properties held for sale	3,734	(3,734)
Inventories	978	(2,399)
Trade and other receivables	(13,185)	(70,275)
Trade and other payables	491	90,114
Effect of exchange rate changes	381	–
Net cash outflow from operating activities	(191,292)	(86,613)

25. MAJOR NON-CASH TRANSACTION

The Group entered into finance lease arrangements in respect of machinery and equipment with a total capital value at the inception of the arrangements of HK\$24,601,000 (2000: HK\$794,000).

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

26. PURCHASE OF SUBSIDIARIES

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Net liabilities acquired:		
Property, plant and equipment	–	303
Trade and other receivables	759	808
Cash and cash equivalents	397	2,219
Trade and other payables	(408)	(5,203)
	748	(1,873)
Goodwill	1,252	7,122
	2,000	5,249
Satisfied by:		
Cash	2,000	5,000
Direct costs incurred	–	249
	2,000	5,249
Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiaries:		
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Cash consideration	2,000	5,000
Bank balances and cash acquired	(397)	(2,219)
Cash payment for direct costs	–	249
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	1,603	3,030

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

27. DISPOSAL OF SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
Net assets disposed of:		
Property, plant and equipment	–	10,219
Long-term investments	–	5,757
Inventories	–	2,016
Other investments	15,000	–
Trade and other receivables	–	10,733
Cash and cash equivalents	–	5,068
Trade and other payables	–	(12,952)
Taxation	–	(616)
Minority interests	–	(14,276)
Exchange reserve	–	(1,117)
Other capital reserve	–	1,087
Reserve on consolidation	–	560
	15,000	6,479
Gain on disposal of subsidiaries	–	23,521
	15,000	30,000

Analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries:

	2001 HK\$'000	2000 HK\$'000
Cash consideration	15,000	–
Cash and bank balances disposed	–	(5,068)
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	15,000	(5,068)

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Issued capital and share premium <i>HK\$'000</i>	Obligations under finance leases <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
At 1 January 2000	250,596	–	12,441
Cash inflow/(outflow) from financing	742,046	(212)	–
Inception of finance leases contracts	–	794	–
Share of profit for the year	–	–	1,954
Disposal of subsidiaries	–	–	(14,276)
Conversion of preference shares	161,291	–	–
At 31 December 2000	1,153,933	582	119
Cash inflow/(outflow) from financing	127,293	(8,926)	591
Inception of finance leases contracts	–	24,601	–
Share of loss for the year	–	–	(710)
At 31 December 2001	1,281,226	16,257	–

29. COMMITMENTS UNDER OPERATING LEASES

At the balance sheet date, total outstanding commitments in respect of land and buildings under non-cancellable operating leases are payable as follows:

	Group		Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Operating leases which expire:				
Within one year	10,361	4,515	651	1,284
In the second to fifth years inclusive	4,144	1,784	–	31
	14,505	6,299	651	1,315

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

30. DEFERRED TAXATION

At the balance sheet date, the major components of the deferred taxation liabilities/(assets) unprovided are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Excess of tax allowances over depreciation	2,691	2,187
Tax losses carried forward	(88,833)	(28,421)
	(86,142)	(26,234)

A potential deferred tax asset has not been recognised in the financial statements in respect of tax losses available to set off future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

31. RELATED PARTY TRANSACTION

During the year, the Group paid international telecommunication services fee of HK\$6,563,000 (2000: HK\$4,471,000) to Mandarin Communications Limited, a subsidiary of SUNDAY Communications Limited ("SUNDAY"). Messrs. Richard John Siemens, Kuldeep Saran and William Bruce Hicks are directors of both the Company and SUNDAY.

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

32. SEGMENTAL INFORMATION

The analysis of the principal business activities and geographical area of operations of the Group during the year are as follows:

(a) By business segments

Year ended 31 December 2001

	Telecom- munication services <i>HK\$'000</i>	Corporate management services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover				
External sales	224,162	34,912	4,822	263,896
Result				
Loss from operations	(163,391)	(22,612)	(16,107)	(202,110)
Intangible assets and goodwill written off	(105,628)	(2,508)	(6,659)	(114,795)
	(269,019)	(25,120)	(22,766)	(316,905)
Finance costs				(1,216)
Other operating income and expenses				(50,655)
Unrealised holding loss on other investments				(240,476)
Provision for diminution in value of investment securities				(72,021)
Share of results of associates				(752)
Loss from ordinary activities				(682,025)
Minority interests				710
Net loss attributable to shareholders				(681,315)

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

32. SEGMENTAL INFORMATION (Cont'd)

(a) By business segments (Cont'd)

Year ended 31 December 2001

	Telecom- munication services HK\$'000	Corporate management services HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Other information					
Capital expenditure	158,635	3,076	1,234		
Depreciation and amortisation	30,725	1,286	2,076		
Significant non-cash expenses (other than depreciation and amortisation)	7,678	-	271		
Assets					
Segment assets	268,899	8,134	9,715	(382)	286,366
Interests in associates					4,838
Unallocated assets					761,790
Intra-segment elimination					(580,871)
					<u>472,123</u>
Liabilities					
Segment liabilities	618,010	34,629	39,858	(581,253)	111,244
Unallocated liabilities					3,569
					<u>114,813</u>

Notes to the Financial Statements *(Cont'd)*

For the year ended 31 December 2001

32. SEGMENTAL INFORMATION *(Cont'd)*

(a) By business segments *(Cont'd)*

Year ended 31 December 2000

	Telecom- munication services <i>HK\$'000</i>	Corporate management services <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover				
External sales	63,740	1,284	35,101	100,125
Result				
Loss from operations	(76,864)	(9,777)	(2,607)	(89,248)
Finance costs				(140)
Other operating income and expenses				103,397
Provision for diminution in value of investment securities				(8,904)
Share of results of associates				(1,110)
Profit from ordinary activities before taxation				3,995
Taxation				(739)
Profit after ordinary activities after taxation				3,256
Minority interests				(1,954)
Net profit attributable to shareholders				1,302

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

32. SEGMENTAL INFORMATION (Cont'd)

(a) By business segments (Cont'd)

Year ended 31 December 2000

	Telecom- munication services HK\$'000	Corporate management services HK\$'000	Others HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Other information					
Capital expenditure	134,957	3,276	5,779		
Depreciation and amortisation	8,760	345	2,266		
Significant non-cash expenses (other than depreciation and amortisation)	1,142	-	-		
Assets					
Segment assets	198,575	2,260	17,070	(303)	217,602
Interests in associates					12,687
Unallocated assets					993,148
Intra-segment elimination					(283,463)
					<u>939,974</u>
Liabilities					
Segment liabilities	340,701	7,651	31,253	(283,766)	95,839
Unallocated liabilities					2,519
					<u>98,358</u>

Notes to the Financial Statements *(Cont'd)*

For the year ended 31 December 2001

32. SEGMENTAL INFORMATION *(Cont'd)*

(b) By geographical segments

Year ended 31 December 2001

	Asia Pacific <i>HK\$'000</i>	North America <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover			
External sales	150,319	113,577	263,896
Result			
Loss from operations	(105,181)	(96,929)	(202,110)
Intangible assets and goodwill written off	(79,102)	(35,693)	(114,795)
	(184,283)	(132,622)	(316,905)
Finance costs			(1,216)
Other operating income and expenses			(50,655)
Unrealised holding loss on other investments			(240,476)
Provision for diminution in value of investment securities			(72,021)
Share of results of associates			(752)
Loss from ordinary activities before taxation			(682,025)
Minority interests			710
Net loss attributable to shareholders			(681,315)
Other information			
Segment assets	313,551	153,734	467,285
Interests in associates			4,838
			472,123
Capital expenditure	92,311	71,167	

Notes to the Financial Statements (Cont'd)

For the year ended 31 December 2001

32. SEGMENTAL INFORMATION (Cont'd)

(b) By geographical segments (Cont'd)

Year ended 31 December 2000

	Asia Pacific HK\$'000	North America HK\$'000	Consolidated HK\$'000
Turnover			
External sales	67,603	32,522	100,125
Result			
Loss from operations	(78,681)	(10,567)	(89,248)
Finance costs			(140)
Other operating income and expenses			103,397
Provision for diminution in value of investment securities			(8,904)
Share of results of associates			(1,110)
Profit from ordinary activities before taxation			3,995
Taxation			(739)
Profit from ordinary activities after taxation			3,256
Minority interests			(1,954)
Net profit attributable to shareholders			1,302
Other information			
Segment assets	786,027	141,260	927,287
Interests in associates			12,687
			939,974
Capital expenditure	47,886	97,253	

33. COMPARATIVE FIGURES

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

Summary of Results, Assets and Liabilities of the Group

	Results of the Group for the five years ended 31 December				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Turnover					
Continuing operations	263,896	76,652	44,210	54,334	48,557
Discontinued operations	-	23,473	1,035	-	28,160
	263,896	100,125	45,245	54,334	76,717
(Loss)/Profit from operations	(681,273)	5,105	(75,170)	(55,323)	(56,790)
Share of results of associates	(752)	(1,110)	-	-	(21,478)
(Loss)/Profit before taxation	(682,025)	3,995	(75,170)	(55,323)	(78,268)
Taxation	-	(739)	(739)	(1,763)	(1,366)
(Loss)/Profit from ordinary activities after taxation	(682,025)	3,256	(75,909)	(57,086)	(79,634)
Minority interests	710	(1,954)	(2,499)	(6,469)	(6,154)
Net (loss)/profit attributable to shareholders	(681,315)	1,302	(78,408)	(63,555)	(85,788)
(Loss)/Earnings per share					
Basic	(35.12) cents	0.08 cent	(9.98) cents	(12.45) cents	(21.15) cents
Diluted	N/A	0.07 cent	N/A	N/A	N/A

Summary of Results, Assets and Liabilities of the Group (Cont'd)

	Assets and liabilities of the Group at 31 December				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Non-current assets	251,700	448,483	16,295	70,179	114,797
Current assets	220,423	491,491	115,752	15,406	108,802
Total assets	472,123	939,974	132,047	85,585	223,599
<i>Less:</i>					
Non-current liabilities	4,885	–	–	–	5,237
Current liabilities	109,928	98,239	14,346	9,278	86,625
Total liabilities	114,813	98,239	14,346	9,278	91,862
	357,310	841,735	117,701	76,307	131,737
<i>Less:</i>					
Minority interests	–	119	12,441	10,739	10,670
Net assets	357,310	841,616	105,260	65,568	121,067

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of e-Kong Group Limited (the "Company") will be held at Suite 2101-3, K. Wah Centre, 191 Java Road, North Point, Hong Kong, on Friday, 28 June 2002 at 10:00 a.m. for the following purposes:-

1. To receive and consider the audited financial statements for the year ended 31 December 2001 and the report of directors and of the auditors thereon;
2. To re-elect retiring directors and to fix their remuneration;
3. To re-appoint auditors and to authorise the board of directors to fix their remuneration;

Ordinary Resolutions

4. As special business, to consider and, if thought fit, pass the following resolution, with or without amendments, as an ordinary resolution:-

"THAT:-

- (a) subject to paragraph (c) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional ordinary shares of HK\$0.02 each in the capital of the Company, or securities convertible into shares, options, warrants, or similar rights to subscribe for any shares and to make or grant offers, agreements, options or warrants which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements, options or warrants which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to an issue of shares as a result of:
 - (i) a Rights Issue (as hereinafter defined); or
 - (ii) any scrip dividend or similar arrangement providing for the allotment of shares, in lieu of the whole or part of a dividend on shares of the Company, pursuant to the Bye-laws of the Company from time to time; or
 - (iii) the exercise of any option granted under any share option scheme or similar arrangement for the time being adopted and approved by the shareholders of the Company for the grant or issue to the employees of the Company and/or any of its subsidiaries or other defined scheme participants of shares or rights to acquire shares of the Company; or

Notice of Annual General Meeting (Cont'd)

- (iv) the exercise of redemption or conversion rights attaching to the non-cumulative convertible redeemable preference shares of HK\$1.00 each in the capital of the Company; or
- (v) the exercise of subscription rights or conversion rights attaching to any warrants or any other securities convertible into shares which may be issued by the Company

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly; and

- (d) for the purpose of this Resolution:-

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and
- (iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to the holders of shares of the Company or any class thereof on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares or any class thereof (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory applicable to the Company).”

- 5. As special business, to consider and, if thought fit, pass the following resolution, with or without amendments, as an ordinary resolution:-

“THAT:-

- (a) subject to paragraph (b) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase issued ordinary shares of HK\$0.02 each in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), or on any other stock exchange on which the shares of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose (“Recognized Stock Exchange”), subject to and in accordance with all applicable laws and/or the requirements of the Rules Governing the Listing of Securities on the Stock Exchange and, if applicable, of any Recognized Stock Exchange, as amended from time to time be and is hereby generally and unconditionally approved;

Notice of Annual General Meeting (Cont'd)

- (b) the aggregate nominal amount of shares of the Company to be purchased by the Company pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10% of the aggregate nominal amount of share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution:-

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and
- (iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting."

- 6. As special business, to consider and, if thought fit, pass the following resolution, with or without amendments, as an ordinary resolution:-

"THAT conditional upon Resolutions 4 and 5 set out in the notice convening this meeting being passed of which this Resolution forms part (the "Notice"), the aggregate nominal amount of the number of the shares in the capital of the Company which are purchased by the Company under the authority granted pursuant to Resolution 5 set out in the Notice shall be added to the aggregate nominal amount of share capital of the Company that may be allotted, issued, and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with by the directors of the Company pursuant to Resolution 4 set out in the Notice, provided that such amount of shares shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution."

Special Resolution

- 7. As special business, to consider and, if thought fit, pass the following resolution, with or without amendments, as a special resolution:-

"THAT the Bye-laws of the Company be altered in the following manner:-

- (a) by adding the following definition in Bye-law 1 immediately after the definition "dollars" and "\$":-

"electronic communication" A communication sent by electronic transmission in any form through any medium.

Notice of Annual General Meeting (Cont'd)

- (b) by deleting Bye-law 2(e) in its entirety and substituting the following in its place:–

“expressions referring to writing shall, unless the contrary intention appears, be construed as including printing, lithography, photography and other modes of representing words or figures in a visible form or, to the extent permitted by, and in accordance with the Statutes and other applicable laws, rules and regulations, any visible substitute for writing (including an electronic communication), or partly in one visible form and partly in another visible form.”

- (c) by adding the following as paragraph (k) in Bye-law 2:–

“References to a document being executed include references to its being executed under hand or under seal or, to the extent permitted by, and in accordance with the Statutes and other applicable laws, rules and regulations, by electronic signature or by any other method. References to a document, to the extent permitted by, and in accordance with the Statutes and other applicable laws, rules and regulations, include references to any information in visible form whether having physical substance or not.”

- (d) by deleting Bye-law 153 in its entirety and substituting the following in its place:–

“153. (A) Subject to Section 88 of the Act and Bye-law 153(B), the Company will, in accordance with the Statutes and other applicable laws, rules and regulations, deliver or send to every member of, and every holder of debentures of, the Company and to every other person who is entitled to receive notices of general meetings of the Company under the provisions of the Statutes or of these presents a copy of the relevant financial documents in respect of the Company or a copy of the summary financial report in place of a copy of the relevant financial documents from which the report is derived not less than twenty-one (21) days before the date of the general meeting of the Company (or such other time as is permitted under the Statutes and other applicable laws, rules and regulations), provided that this Bye-law shall not require a copy of these documents to be sent to more than one of the joint holders of any shares or debentures or to any member of, or any holder of debentures of, the Company who is not entitled to receive notices of general meetings of the Company and of whose address the Company is unaware, but any member or holder of debentures of the Company to whom a copy of these documents has not been sent shall be entitled to receive a copy of these documents free of charge on application to the Company.

- (B) Where an entitled person under Bye-law 153(A) has, in accordance with the Statutes and other applicable laws, rules and regulations, agreed to his having access to the relevant financial documents and/or the summary financial report in respect of the Company on the Company's computer network as mentioned in Bye-law 160(v) or, to the extent permitted by, and in accordance with the Statutes and other applicable laws, rules and regulations in any other manner (including by any other form of electronic communication) instead of being sent the documents or report, as the case

Notice of Annual General Meeting (Cont'd)

may be (an "Assenting Person"), the publication or making available by the Company, in accordance with the Statutes and other applicable laws, rules and regulations, on the Company's computer network referred to above of the relevant financial documents and/or the summary financial report throughout the period beginning not less than twenty-one (21) days before the date of the general meeting of the Company and ending on such date in accordance with the Statutes and other applicable laws, rules and regulations (or such other period or time as is permitted under the Statutes and other applicable laws, rules and regulations) or in such other manner shall be treated as having sent a copy of the relevant financial documents or a copy of the summary financial report to an Assenting Person in satisfaction of the Company's obligations under Bye-law 153(A)."

(e) by deleting Bye-laws 160 to 161 in their entirety and substituting the following as new Bye-laws:—

"160. Any notice or document, whether or not to be given or issued under the Statutes, other applicable laws, rules and regulations or these presents from the Company, may be served or delivered by the Company upon any member of, and any holder of debentures of, the Company and to any other person who is entitled to receive notices under the provisions of the Statutes or these presents:

- (i) personally;
- (ii) by sending it through the post in a prepaid envelope or wrapper addressed to such person at his registered address;
- (iii) by advertisement in English in at least one English language newspaper and in Chinese in at least one Chinese language newspaper being in each case a newspaper published daily and circulating generally in Hong Kong and specified or permitted for this purpose by the Statutes and other applicable laws, rules and regulations, and for such period as the Directors shall think fit to the extent permitted by, and in accordance with the Statutes and other applicable laws, rules and regulations;
- (iv) by sending or transmitting it as an electronic communication to such person at any telex or facsimile transmission number or electronic number or electronic address or computer network or website supplied by him to the Company for the giving of notice or document from the Company to him to the extent permitted by, and in accordance with, the Statutes and other applicable laws, rules and regulations.
- (v) by publishing it on the Company's computer network and giving to such person notice in accordance with the Statutes, other applicable laws, rules and regulations stating that the notice or other document is available there (a "Notice of Availability") to the extent permitted by, and in accordance with, the Statutes and other applicable laws, rules and regulations. The Notice of Availability may be given to such person by any of the means set out in Bye-law 160(i), (ii), (iii), (iv) or (vi); or

Notice of Annual General Meeting (Cont'd)

- (vi) by sending or otherwise making available to such person through such means to the extent permitted by, and in accordance with, the Statutes and their applicable laws, rules and regulations.
161. (A) Any notice or other document:
- (i) if served or delivered by post, shall be deemed to have been served or delivered on the day following that on which the envelope or wrapper containing the same is posted, and, in proving such service or delivery, it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly prepaid, addressed and put into the post. A certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board, that the envelope or wrapper containing the notice or other document was so prepaid, addressed and put into the post shall be conclusive evidence thereof;
 - (ii) if sent or transmitted as an electronic communication in accordance with Bye-law 160(iv) or through such means in accordance with Bye-law 160(vi), shall be deemed to have been served or delivered at the time of the relevant dispatch or transmission. A notice or document published on the Company's computer network in accordance with Bye-law 160(v) shall be deemed to have been served or delivered on the day following that on which a Notice of Availability is sent to the entitled person. In proving such service or delivery, a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board as to the fact and time of such service, delivery, dispatch, transmission or publication shall be conclusive evidence thereof;
 - (iii) if served or delivered in person, shall be deemed to have been served or delivered at the time of personal service or delivery, and in proving such service or delivery, a certificate in writing signed by the Secretary or other officer of the Company or other person appointed by the Board that the notice or document was so served or delivered shall be conclusive evidence thereof; and
 - (iv) if served by advertisement in newspapers in accordance with Bye-law 160(iii), shall be deemed to have been served on the day on which such notice or document is published.
- (B) Where a person has in accordance with the Statutes and other applicable laws, rules and regulations consented to receive notices and other documents from the Company in the English language only or the Chinese language only but not both, it shall be sufficient for the Company to serve on or deliver to him any notice or document in such language only in accordance with these presents unless and until there is a notice of revocation or amendment of such consent given or deemed to have been given by

Notice of Annual General Meeting *(Cont'd)*

such person to the Company in accordance with the Statutes and other applicable laws, rules and regulations which shall have effect in respect of any notice or document to be served on or delivered to such person subsequent to the giving of such notice of revocation or amendment.

162. All notices or other documents with respect to shares standing in the names of joint holders shall be served on or delivered to whichever of such persons is named first in the register of members and any notice or document so served or delivered shall be deemed a sufficient service on or delivery to all the holders of such shares."

(f) by renumbering the existing Bye-laws 162 to 168 as Bye-laws 163 to 169.

8. To transact any other business.

By Order of the Board
Wang Poey Foon, Angela
Company Secretary

Hong Kong, 3 April 2002

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice (or at any adjournment thereof) is entitled to appoint a proxy to attend and vote on his/her behalf. A member may appoint a proxy in respect of part only of his/her holding of shares in the Company. A proxy need not be a member of the Company.
2. To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrars in Hong Kong, Secretaries Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting (as the case may be).
3. Completion and delivery of a form of proxy shall not preclude a member from attending and voting in person at the meeting convened, if the member so desires and in such event, the form of proxy shall be deemed to be revoked.
4. An explanatory statement containing further details regarding resolutions 4 to 6 above will be sent to members and other persons who are entitled thereto together with the Company's 2001 Annual Report.
5. Amendments to the Bye-laws are being made to reflect the recent changes to the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. An explanatory statement containing information regarding, inter alia, the amendments to the Bye-laws of the Company will be sent to the members together with the Company's 2001 Annual Report.
6. The Register of Members of the Company will be closed from Tuesday, 25 June 2002 to Friday, 28 June 2002, both days inclusive, during which period no transfer of shares will be effected.

In order to determine entitlement to attend and vote at the forthcoming annual general meeting, all share transfers accompanied by the relevant share certificates, must be lodged with the Company's branch share registrars in Hong Kong, Secretaries Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration by not later than 4:00 p.m. on Monday, 24 June 2002.