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e-KONG

e-Kong Group Limited

(Incorporated in Bermuda with limited liability)

www.e-kong.com

(Stock Code: 524)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

HIGHLIGHTS

- The Group accelerated the pace to transform and diversify its telecom businesses
- In the United States, the Group's joint venture ANZ Communications, LLC launched its new Unified Communication hosted solutions and cloud applications services in the last quarter of 2013
- ZONE Asia kept focussed on maintaining the volume and margin of its traditional voice business as it advanced its efforts to deliver increased revenue growth from the new IT-related and cloud-based products and services
- RMI's platform for mass market distribution of insurance-related products has expanded both geographically as well as in the range of products being introduced through its distribution partners

RESULTS

The board of directors (the "Board") of e-Kong Group Limited (the "Company") herein announces the audited consolidated financial results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013, together with comparative figures for 2012, as set out below.

Consolidated Statement of Profit or Loss

		Year ended 31 December	
		2013	2012
	Notes	HK\$'000	HK\$'000 (Restated)
Turnover	2	77,345	79,176
Cost of sales		<u>(39,358)</u>	<u>(40,313)</u>
Gross profit		37,987	38,863
Other revenue and income	3	<u>1,622</u>	<u>2,987</u>
		39,609	41,850
Selling and distribution expenses		(5,313)	(6,457)
Business promotion and marketing expenses		(3,279)	(4,464)
Operating and administrative expenses		(49,500)	(46,213)
Other operating expenses		<u>(5,505)</u>	<u>(3,209)</u>
Loss from operations		(23,988)	(18,493)
Finance costs	4	(1,118)	(206)
Share of results of joint ventures	8	<u>(8,180)</u>	<u>18,147</u>
Loss before taxation	4	<u>(33,286)</u>	<u>(552)</u>
Taxation (charges) / credit	5		
Current tax		(1,352)	(761)
Deferred tax		<u>47</u>	<u>(12,442)</u>
		<u>(1,305)</u>	<u>(13,203)</u>
Loss for the year		<u><u>(34,591)</u></u>	<u><u>(13,755)</u></u>

Consolidated Statement of Profit or Loss *(continued)*

	<i>Notes</i>	Year ended 31 December	
		2013	2012
		<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Restated)</i>
Loss for the year attributable to:			
Equity holders of the Company		(32,629)	(12,851)
Non-controlling interests		<u>(1,962)</u>	<u>(904)</u>
Loss for the year		<u>(34,591)</u>	<u>(13,755)</u>
		<i>HK cents</i>	<i>HK cents</i>
Loss per share			
Basic and diluted	6	<u>(6.3)</u>	<u>(2.5)</u>

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Year ended 31 December	
	2013	2012
	HK\$'000	HK\$'000
Loss for the year	(34,591)	(13,755)
Other comprehensive (loss) / income for the year		
<i>Item that may be subsequently reclassified to profit or loss:</i>		
Exchange differences on translation of foreign subsidiaries and joint ventures	<u>(581)</u>	<u>920</u>
Total comprehensive loss for the year	<u>(35,172)</u>	<u>(12,835)</u>
Total comprehensive loss for the year attributable to:		
Equity holders of the Company	(33,210)	(11,931)
Non-controlling interests	<u>(1,962)</u>	<u>(904)</u>
Total comprehensive loss for the year	<u>(35,172)</u>	<u>(12,835)</u>

Consolidated Statement of Financial Position

		As at 31 December 2013 HK\$'000	As at 31 December 2012 HK\$'000 (Restated)	As at 1 January 2012 HK\$'000 (Restated)
	<i>Notes</i>			
Non-current assets				
Property, plant and equipment		6,503	6,951	4,876
Intangible assets	7	13,505	16,115	–
Interests in joint ventures	8	131,655	140,401	136,048
Deferred tax assets		45	145	12,453
		151,708	163,612	153,377
Current assets				
Inventories		847	1,723	1,454
Trade and other receivables	9	17,041	17,879	16,228
Pledged bank deposits		79,402	79,454	2,316
Cash and bank balances		32,814	55,706	66,956
		130,104	154,762	86,954
Current liabilities				
Trade and other payables	10	19,606	17,585	13,016
Current portion of bank borrowings		2,968	3,069	–
Taxation payable		267	416	1,374
		22,841	21,070	14,390
Net current assets		107,263	133,692	72,564
Total assets less current liabilities		258,971	297,304	225,941

Consolidated Statement of Financial Position *(continued)*

	As at 31 December 2013 HK\$'000	As at 31 December 2012 HK\$'000 (Restated)	As at 1 January 2012 HK\$'000 (Restated)
Non-current liabilities			
Deferred revenue	775	634	–
Bank borrowings	79,478	82,615	–
Deferred tax liabilities	<u>368</u>	<u>533</u>	<u>348</u>
	<u>80,621</u>	<u>83,782</u>	<u>348</u>
NET ASSETS	<u>178,350</u>	<u>213,522</u>	<u>225,593</u>
Capital and reserves			
Share capital	5,210	5,210	5,210
Reserves	<u>178,143</u>	<u>209,282</u>	<u>221,213</u>
Equity attributable to equity holders of the Company	183,353	214,492	226,423
Non-controlling interests	<u>(5,003)</u>	<u>(970)</u>	<u>(830)</u>
TOTAL EQUITY	<u>178,350</u>	<u>213,522</u>	<u>225,593</u>

1. Basis of preparation and accounting policies

These consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable HKFRS, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the applicable requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The accounting policies and bases of preparation adopted in these consolidated financial statements are consistent with those adopted in the Company's 2012 Annual Report except as described below.

In the current year, the Group has applied, for the first time, the following new and revised HKFRS issued by the HKICPA that are relevant to the Group and effective for its accounting period beginning on 1 January 2013:

Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, the "statement of comprehensive income" is renamed as the "statement of profit or loss and other comprehensive income" and the "income statement" is renamed as the "statement of profit or loss". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis, however, the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively and, hence, the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above presentation changes, the application of the amendments to HKAS 1 does not result in any financial impact on profit or loss, other comprehensive income and total comprehensive income.

HKFRS 10 Consolidated Financial Statements

HKFRS 10 replaces the requirements in HKAS 27 "Consolidated and Separate Financial Statements" relating to the preparation of consolidated financial statements and HK(SIC)-Int 12 "Consolidation – Special Purpose Entities". It introduces a single approach for determining control for the purpose of consolidation of investee interests by the Group focused on the concept of the power over the investee, exposure to variable returns from its involvement therein and the ability to use its powers to affect the amount of those returns. The adoption of HKFRS 10 does not change any of the control conclusions reached by the Group in respect of its involvement with other entities at that date.

1. Basis of preparation and accounting policies (continued)

HKFRS 11 Joint Arrangements

HKFRS 11 "Joint Arrangements", which replaces HKAS 31 "Interests in Joint Ventures", deals with how a joint arrangement whereby two or more parties have joint control should be classified and removes the option to account for joint ventures using the proportional consolidation accounting method. The application of HKFRS 11 affects the Group's accounting policy for interests in joint ventures, which are accounted for and reported using the equity method. HKFRS 11 has been applied retrospectively and, accordingly, certain comparative figures in the consolidated financial statements have been restated.

The breakdown of the assets and liabilities that has been aggregated into the single line investment balance as at 1 January 2012 is shown below. The disclosure is prepared in an aggregate manner for all joint ventures for which the Group applies the transition requirements for changes from the proportional consolidation accounting method to the equity method.

	<i>HK\$'000</i>
Interests in joint ventures	
Property, plant and equipment	26,619
Intangible assets	20,985
Goodwill	6,031
Interests in an associate	924
Trade and other receivables	65,399
Cash and bank balances	54,910
Trade and other payables	(65,428)
Current portion of obligations under finance leases	(826)
Obligations under finance leases	<u>(62)</u>
 Total equity	 108,552
 Goodwill	 <u>27,496</u>
	<u><u>136,048</u></u>

1. Basis of preparation and accounting policies (continued)

The net effects in the consolidated financial statements for the year ended 31 December 2012 as a result of the adoption of HKFRS 11 are shown below.

	Increase / (Decrease) in profit HK\$'000
Turnover	(475,513)
Cost of sales	<u>351,897</u>
Gross profit	(123,616)
Other revenue and income	<u>16</u>
	(123,600)
Selling and distribution expenses	24,665
Business promotion and marketing expenses	1,243
Operating and administrative expenses	63,874
Other operating expenses	<u>15,680</u>
Profit from operations	(18,138)
Finance costs	30
Share of results of associate	(39)
Share of results of joint ventures	<u>18,147</u>
Profit before taxation	<u><u>—</u></u>
	Increase / (Decrease) HK cents
Earnings per share	
Basic and diluted	<u><u>—</u></u>

1. Basis of preparation and accounting policies *(continued)*

	Increase / (Decrease) <i>HK'000</i>
Non-current assets	
Property, plant and equipment	(28,257)
Intangible assets	(18,390)
Goodwill	(33,441)
Interests in an associate	(917)
Interests in joint ventures	<u>140,401</u>
	<u>59,396</u>
Current assets	
Trade and other receivables	(58,288)
Cash and bank balances	<u>(65,480)</u>
	<u>(123,768)</u>
Current liabilities	
Trade and other payables	(64,310)
Current portion of obligations under finance leases	<u>(62)</u>
	<u>(64,372)</u>
Net current assets	<u>(59,396)</u>
NET ASSETS	<u><u>-</u></u>
	Increase / (Decrease) <i>HK'000</i>
Net cash generated from operating activities	(40,513)
Net cash generated from investing activities	28,978
Net cash generated from financing activities	<u>824</u>
Net increase in cash and cash equivalents	(10,711)
Cash and cash equivalents as at 1 January	(54,910)
Exchange gains on cash and cash equivalents	<u>141</u>
Cash and cash equivalents as at 31 December	<u><u>(65,480)</u></u>

1. Basis of preparation and accounting policies *(continued)*

HKFRS 12 Disclosure of Interests in Other Entities

HKFRS 12 specifies the disclosure requirements for subsidiaries, joint arrangements and associates, and introduces new disclosure requirements for unconsolidated structured entities. As a result of the adoption of HKFRS 12, the Group has made more extensive disclosures in the consolidated financial statements.

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

2. Turnover and segmental information

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

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

2. Turnover and segmental information (continued)

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

(a) By business segments

	Year ended 31 December							
	2013				2012			
	Telecom- munication services HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000	Telecom- munication services HK\$'000 (Restated)	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000 (Restated)
Turnover								
External sales	75,992	1,353	–	77,345	77,995	1,181	–	79,176
Inter-segment sales	269	–	(269)	–	219	–	(219)	–
	<u>76,261</u>	<u>1,353</u>	<u>(269)</u>	<u>77,345</u>	<u>78,214</u>	<u>1,181</u>	<u>(219)</u>	<u>79,176</u>
Results								
Segment results	(724)	(4,826)	–	(5,550)	3,070	(3,473)	–	(403)
Finance costs	(1,118)	–	–	(1,118)	(206)	–	–	(206)
Share of results of joint ventures	(8,180)	–	–	(8,180)	18,147	–	–	18,147
Gain on bargain purchase	–	–	–	–	–	796	–	796
	<u>(10,022)</u>	<u>(4,826)</u>	<u>–</u>	<u>(14,848)</u>	<u>21,011</u>	<u>(2,677)</u>	<u>–</u>	<u>18,334</u>
Other operating income and expenses				(18,438)				(18,886)
Loss before taxation				<u>(33,286)</u>				<u>(552)</u>

Inter-segment sales are charged at prevailing market prices.

2. Turnover and segmental information *(continued)*

(a) *By business segments (continued)*

	As at 31 December 2013			As at 31 December 2012		
	Tele- communication services HK\$'000	Other operations HK\$'000	Consolidated HK\$'000	Tele- communication services HK\$'000 (Restated)	Other operations HK\$'000	Consolidated HK\$'000 (Restated)
Assets						
Reportable segments	<u>177,701</u>	<u>1,962</u>	<u>179,663</u>	<u>194,008</u>	<u>2,396</u>	196,404
Unallocated assets			<u>102,149</u>			<u>121,970</u>
			<u>281,812</u>			<u>318,374</u>
Liabilities						
Reportable segments	<u>(99,221)</u>	<u>(2,347)</u>	<u>(101,568)</u>	<u>(100,822)</u>	<u>(2,047)</u>	(102,869)
Unallocated liabilities			<u>(1,894)</u>			<u>(1,983)</u>
			<u>(103,462)</u>			<u>(104,852)</u>

(b) *By geographical information*

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

3. Other revenue and income

	Year ended 31 December	
	2013 HK\$'000	2012 HK\$'000 (Restated)
Interest income on bank deposits	585	373
Gain on bargain purchase	–	796
Other	<u>1,037</u>	<u>1,818</u>
	<u>1,622</u>	<u>2,987</u>

4. Loss before taxation

Loss before taxation is stated after charging the following:

	Year ended 31 December	
	2013	2012
	HK\$'000	HK\$'000
		(Restated)
Finance costs:		
Interest on bank loans wholly repayable within five years	<u>(1,118)</u>	<u>(206)</u>
	(1,118)	(206)
Amortisation of intangible assets	(2,094)	(1,074)
Depreciation of property, plant and equipment	<u>(2,571)</u>	<u>(2,002)</u>

5. Taxation (charges) / credit

	Year ended 31 December	
	2013	2012
	HK\$'000	HK\$'000
Current tax		
Hong Kong Profits Tax	–	–
Overseas income taxes	<u>(1,352)</u>	<u>(761)</u>
	<u>(1,352)</u>	<u>(761)</u>
Deferred tax		
Depreciation allowances	118	(154)
Tax losses	<u>(71)</u>	<u>(12,288)</u>
	<u>47</u>	<u>(12,442)</u>
	<u>(1,305)</u>	<u>(13,203)</u>

During the year, no provision for Hong Kong Profits Tax has been made as the Group incurred a loss for taxation purposes. In 2012, Hong Kong Profits Tax has not been provided as the Group's assessable profit for the year was wholly absorbed by unrelieved tax losses brought forward from previous years.

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

6. Loss per share

The calculation of basic loss per share for the year ended 31 December 2013 is based on the consolidated loss attributable to equity holders of the Company of HK\$32,629,000 (2012: HK\$12,851,000) and on the number of 521,000,000 (2012: 521,000,000) shares in issue during the year.

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

7. Intangible assets

	As at 31 December	
	2013	2012
	HK\$'000	HK\$'000
		(Restated)
Cost at the beginning of the year	20,786	3,597
Additions	–	17,189
Exchange adjustments	(568)	–
	20,218	20,786
Accumulated amortisation and impairment losses	(6,713)	(4,671)
	13,505	16,115

Intangible assets acquired during 2012 relate to customer contracts in respect of domain name registration, web/data hosting and other services.

8. Interests in joint ventures

	As at 31 December	
	2013	2012
	HK\$'000	HK\$'000
		(Restated)
Share of total equity	104,230	112,976
Goodwill	27,425	27,425
	131,655	140,401

8. Interests in joint ventures (continued)

As at 31 December 2013, the Group had interests in the following joint ventures:

Name of joint venture	Form of business structure	Place of establishment / operation	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held	Principal activities
			Directly	Indirectly		
ANZ Communications, LLC	Limited liability company	United States of America	50%	–	50%	Investment holding
ANPI Business, LLC	Limited liability company	United States of America	–	50%	50%	Provision of telecommunication services
ANPI, LLC	Limited liability company	United States of America	–	50%	50%	Provision of telecommunication services

The summarised financial information in respect of the joint ventures (after adjustments to impairment losses, amortisation and depreciation on consolidation) in which the Group has 50% interests is set out below.

	As at 31 December 2013		As at 31 December 2012	
	100% HK\$'000	The Group's 50% share HK\$'000	100% HK\$'000	The Group's 50% share HK\$'000
Non-current assets	130,700	65,350	107,160	53,580
Current assets	193,114	96,557	247,536	123,768
Current liabilities	(115,354)	(57,677)	(128,744)	(64,372)
Total equity	<u>208,460</u>	<u>104,230</u>	<u>225,952</u>	<u>112,976</u>

8. Interests in joint ventures (continued)

	Year ended 31 December			
	2013		2012	
	100% HK\$'000	The Group's 50% share HK\$'000	100% HK\$'000	The Group's 50% share HK\$'000
Revenue	807,964	403,982	951,026	475,513
Expenses	(824,324)	(412,162)	(914,732)	(457,366)
(Loss) / Profit for the year	(16,360)	(8,180)	36,294	18,147
Other comprehensive income for the year	—	—	—	—
Total comprehensive (loss) / income for the year	(16,360)	(8,180)	36,294	18,147
Distributions from joint venture	1,134	567	29,988	14,994

The above financial information has been prepared using the same accounting policies as those adopted by the Group.

9. Trade and other receivables

	As at 31 December	
	2013 HK\$'000	2012 HK\$'000 (Restated)
Trade receivables	9,350	9,639
Other receivables		
Deposits, prepayments and other debtors	7,691	8,240
	17,041	17,879

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

	As at 31 December	
	2013 HK\$'000	2012 HK\$'000 (Restated)
Less than 1 month	5,766	7,112
1 to 3 months	2,164	1,915
More than 3 months but less than 12 months	1,420	612
	9,350	9,639

10. Trade and other payables

	As at 31 December	
	2013	2012
	HK\$'000	HK\$'000
		(Restated)
Trade payables	2,229	2,556
Other payables		
Deferred revenue	3,390	1,788
Accrued charges and other creditors	11,868	13,241
Due to a joint venture	2,119	–
	<u>19,606</u>	<u>17,585</u>

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

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

	As at 31 December	
	2013	2012
	HK\$'000	HK\$'000
		(Restated)
Less than 1 month	1,828	2,202
1 to 3 months	323	276
More than 3 months but less than 12 months	78	78
	<u>2,229</u>	<u>2,556</u>

FINAL DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31 December 2013 (2012: Nil).

BUSINESS REVIEW

Overview

During the year under review, the Group accelerated the pace to transform and diversify its telecom businesses and to geographically expand its insurance-related distribution business. In the United States, the Group's joint venture ANZ Communications, LLC (ANZ) re-invested a considerable portion of its operating cashflow derived from its existing business to develop and promote the new Unified Communication (UC) hosted solutions and cloud applications. Similarly in Asia, ZONE increased its financial and human resource allocations to broaden its IT and data-related service offerings. RMI, the Group's non-telecom operation, further expanded its insurance-related distribution model into new markets. While considerable progress has been made to deliver on strategic initiatives, in the short term the resulting investments have inevitably impacted negatively on the operating results and financial position of the Group.

The Group's turnover for the year under review was HK\$77.3 million as compared to HK\$79.2 million for the prior year. The Group's telecom operations in Hong Kong and Singapore were the main contributors towards the Group's turnover. The gross margin of the Group remained stable at 49.1%. Loss from operations was HK\$24.0 million compared to HK\$18.5 million for the prior year. The loss attributable to equity holders of the Company of HK\$32.6 million for the year compared with a loss of HK\$12.9 million in the previous corresponding year. The Group's net asset value decreased from HK\$213.5 million as at 31 December 2012 to HK\$178.4 million as at 31 December 2013.

ANZ, United States

Subsequent to the application of HKFRS 11 "Joint Arrangements", and, therefore, the change in the Group's accounting policy that came into effect on 1 January 2013, the Group's interests in ANZ are no longer accounted for by the proportionate consolidation accounting method but instead are accounted for using the equity method. On this basis, for this reporting year, the Group no longer records the Group's 50% share of the operating results, assets and liabilities of ANZ, but instead, only recognises the Group's share on each of the ANZ net assets and net results based on the equity method. As at 31 December 2013, the Group's interests in ANZ amounted to HK\$131.7 million and, for the year 2013, its share of the net results of ANZ was at a loss of HK\$8.2 million.

BUSINESS REVIEW *(continued)*

In the year 2013, ANZ recorded turnover of HK\$808.0 million as compared to HK\$951.0 million for the prior year. Its existing business of providing wholesale voice and data services to ILECs, CLECs, IXC, wireless carriers and corporate customers (the “Legacy Business”) continued to be the primary source of revenue and cashflow. The revenue generated from the Legacy Business is, however, anticipated to decline further but contributions from its new business of providing Unified Communication hosted solutions and cloud-based applications (the “Cloud Business”) is projected to increase significantly over the coming years. Since the launch of the Cloud Business in the last quarter of 2013, the market responses from both the SMBs and wholesale / white label market have been positive. The compelling value proposition being offered to customers in these market segments is expected to be the key driver for favourable adoption of ANZ solutions throughout the US.

The operational transformation and infrastructure development accomplished to date in order to penetrate the Cloud Business market segment has been mainly financed through the re-investment of internally generated cashflow derived from ANZ’s Legacy Business. However, based on its latest business plan, additional external funding will be needed if the projected revenue and EBITDA margins are to be achieved on time. In anticipation of the need for a capital injection sometime in 2014, ANZ and its equity holders have been actively pursuing various funding options, including the Group’s fundraising efforts through a possible reverse merger transaction between a US subsidiary of the Company and a US corporation as announced in May 2013 which remains in progress.

Zone Telecom, Asia

In the year 2013, ZONE Asia recorded total turnover of HK\$76.0 million, as compared to HK\$78.0 million for the prior year. ZONE Asia kept focussed on maintaining the volume and margin of its traditional voice business as it advanced its plans to deliver increased revenue growth from the new IT-related and cloud-based products and services.

In Singapore, ZONE continues to capitalise on the various opportunities in the ICT space to generate a more diverse revenue base. A month-on-month increase in revenue contributions from ZONE’s broadband connectivity service offerings was recorded in 2013. The ongoing marketing and brand awareness programmes launched in 2013 that positioned ZONE as a credible broadband service provider has helped in securing some of the longer term contracts with sizeable corporations and government-linked organisations. At the same time, ZONE’s web/data-hosting subsidiary, Cybersite, implemented various service enhancements and introduced alternative marketing initiatives to drive higher service value and, thereby, increase its subscriber numbers and higher average revenue per customer.

BUSINESS REVIEW *(continued)*

In Hong Kong, ZONE continues to drive its project-based revenue segment, combining its distribution of quality products, including those from Avaya, Elastix, Grandstream and Hewlett-Packard, with the in-depth regional expertise and experience of ZONE's team in deploying complex and non-traditional IT solutions and products.

Looking ahead, in 2014 ZONE will intensify its efforts to drive awareness of ZONE as a dependable IT-telecoms, cloud and hosting service provider for the enterprise market. The fibre broadband and data services as well as the cloud services such as hosted IP-PBX, cloud data storage, hosted audio and web conference services are expected to increase their contribution to results. ZONE will be making capital investments in the latest virtualization technologies to build a robust and scalable infrastructure that will enable it to deliver innovative cloud services including virtual, private servers or virtual machines to tap into the high growth Infrastructure-as-a-Service (IaaS) and Platform-as-a-Service (PaaS) opportunities as well as to introduce new mobile web services in tandem with the growing use of smart devices.

RMI, Hong Kong

RMI's platform for mass market distribution of insurance-related products has expanded both geographically as well as in the range of products being introduced through its distribution partners. RMI successfully enlarged its international footprint with the launch of RMI-Canada product suite in Q3 2013. By the end of 2013, RMI's over-the-counter travel products could be found in more than 800 retail stores across Canada, including Canada Safeway, Overwaitea, Federated Co-Op, Value Drug Mart, Katz and Metro-Ontario. The introduction of a national network of retailers opens the door for further expansion of RMI's "SmartAssure" branded products across this network of retail partners.

RMI in Hong Kong, its founding market, continued the further development of its retail distribution strategy with PCCW-HKT through the recent launch of its new range of insurance products tailor-made for PCCW-HKT's commercial customers. This programme is designed to allow PCCW-HKT to enhance relationships with its business customers by adding real value, while creating a point of difference in the highly competitive telecom sector. RMI provides and manages the benefits, on behalf of PCCW-HKT, of establishing direct and long-term relationships with its customers.

RMI is committed to creating new insurance-related distribution channels utilising its proprietary strategy that enhances customer relationships for its partner network which, at the same time, will build long term meaningful revenue streams. In 2014, RMI intends to advance its product roll-outs in Canada and Hong Kong, setting a solid foundation for expansion in other strategic markets in Asia and North America.

BUSINESS REVIEW *(continued)*

Outlook

In 2013, the Group made good progress on the implementation of its business transformation and diversification strategies, both in Asia and the US. Looking ahead to the coming year, the Group's operations are committed to stay on course and continue to invest in the business for the long term. In the US, with the operational foundation and essential technology platform now in place, ANZ will be focussing on acquisition of customers through direct channels and white label partners for its UC hosted solutions and cloud-based application services. In Asia, ZONE is expected to increase its investments in customer acquisition activities including brand awareness and other sales and marketing programmes while RMI will follow through on its geographical expansion and ongoing insurance-related product launches.

FINANCIAL REVIEW

General Overview

The financial position as at 31 December 2013 and the results of the Group for the twelve months ended 31 December 2013 reflect our adoption, for the first time, of HKFRS 11 which changes the Group's accounting policy on reporting interests in joint ventures from the previous proportional consolidation accounting method to the equity method. The effect of this change is the Group now reports its share of the results and the net assets of joint ventures as single line items as "Share of Results of Joint Ventures" in the consolidated statement of profit or loss and "Interests in Joint Ventures" in the consolidated statement of financial position, respectively. This change in accounting policy has been applied retrospectively and the comparative figures are presented where appropriate.

Turnover and Results

The Group turnover for the year amounted to HK\$77.3 million, representing a decrease of 2.3% compared to the prior year. The drop in turnover was a net result of declining revenue from long distance voice services partly offset by an improvement in revenue contribution from data and IT-related services.

The gross margin for the Group remained stable compared with the previous year at 49.1%.

Total operating expenses of the Group amounted to HK\$63.6 million, compared to HK\$60.3 million in the previous year.

The operating loss of the Group amounted to HK\$24.0 million, as compared to a loss of HK\$18.5 million for the previous year.

FINANCIAL REVIEW *(continued)*

Turnover and Results (continued)

The Group's share of results of joint ventures amounted to a net loss of HK\$8.2 million compared to a net profit of HK\$18.1 million for the prior year. The drop in net results was primarily due to an increase in spending on headcount and the technology build-up for the launch of its new hosted solutions and services.

The consolidated loss attributable to the equity holders of the Company of HK\$32.6 million compares to a loss of HK\$12.9 million for the previous year.

Capital Structure, Liquidity and Financing

As at 31 December 2013, the net assets of the Group amounted to HK\$178.4 million compared to HK\$213.5 million as at 31 December 2012 or a net asset value per share of HK\$0.342 as at 31 December 2013 (2012: HK\$0.410).

Capital expenditures for the year amounted to HK\$2.2 million mainly in respect of network and general office equipment enhancements in Singapore and Hong Kong.

Cash and bank balances (excluding pledged bank deposits) amounted to HK\$32.8 million as at 31 December 2013 (2012: HK\$55.7 million). At the same date, HK\$77.5 million (2012: HK\$77.5 million) was pledged as bank deposits to collateralise a letter of credit issued to a bank in respect of a banking facility extended to a subsidiary. In addition, bank guarantees of HK\$1.9 million (2012: HK\$2.0 million) were issued to suppliers for operation requirements.

As at 31 December 2013, total bank borrowings of the Group amounted to HK\$82.4 million (2012: HK\$85.7 million), of which HK\$77.5 million (2012: HK\$77.5 million) is denominated in United States dollars equivalent to US\$10,000,000. The loan bears interest at a floating rate and is payable quarterly. This facility expires in August 2017, at which time the full amount outstanding is due and payable in United States dollars. The loan is collateralised by a bank letter of credit supported by the Company. The remaining balance of the bank borrowings of HK\$4.9 million (2012: HK\$8.2 million) is denominated in Singapore dollars. The loan and interest at a floating rate are repayable monthly in Singapore dollars over a period of three years. This loan, which was utilised for the acquisition of assets during 2012, is secured by the net assets of a subsidiary company.

As at 31 December 2013, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of net assets was 46.2% (2012: 40.1%).

FINANCIAL REVIEW *(continued)*

Foreign Exchange Exposure

Since most of the Group's assets and liabilities are denominated in Hong Kong and United States dollars, the Group considers there are no significant exposures to foreign exchange fluctuations as long as the Hong Kong-United States dollar exchange rate remains pegged. Following the adoption of HKFRS 11, a substantial portion of the Group's revenue and payments are denominated in Singapore dollars. The Group continues to closely monitor the Singapore-United States dollar exchange rates and will, whenever appropriate, take appropriate action to mitigate such exchange risks. In this regard, as at 31 December 2013, no related currency hedges had yet been undertaken by the Group.

Contingent Liabilities and Commitments

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

Save as disclosed above, as at 31 December 2013, there were no material contingent liabilities or commitments.

EMPLOYEE REMUNERATION POLICIES

As at 31 December 2013, the Group had 77 (2012: 89) employees in China, Hong Kong and Singapore and its total staff costs for 2013 were HK\$36.2 million (2012: HK\$35.2 million).

The Group's remuneration policies are formulated on the basis of the performance and experience of individual employees and are in line with local market practices where the Group operates. The Group has established incentive bonus schemes to motivate and reward employees at all levels to achieve its objectives. In addition to salary and bonus payments, the Group also offers other fringe benefits, including provident fund and medical benefits, to employees.

CORPORATE GOVERNANCE

The directors of the Company are committed to maintaining high standards of corporate governance in performing their obligations to act in the best interests of shareholders and enhance long term shareholder value. Except for the deviations described below, no director of the Company is aware of any information which would reasonably indicate that the Company is not, or was not at any time during the year ended 31 December 2013, acting in compliance with code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

CORPORATE GOVERNANCE *(continued)*

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

Code Provision A.6.7 of the Corporate Governance Code stipulates that independent non-executive directors ("INEDs") and other non-executive directors should attend general meetings. Mr. John William Crawford J.P., an INED of the Company, was unable to attend the annual general meeting of the Company held on 16 May 2013 as he had been hospitalised. However, there were sufficient directors present to enable the Board to develop a balanced understanding of the views of the Company's shareholders.

Following the retirement of Mr. Shane Frederick Weir after the conclusion of the annual general meeting of the Company on 16 May 2013, the Board of the Company had only two INEDs and two Audit Committee members, which fell below the minimum requirements under Rules 3.10(1) and 3.21, respectively, of the Listing Rules. In addition, the Board had only two Remuneration Committee members, one of whom was an INED, which deviated from the provisions of Listing Rule 3.25 in respect of the composition of the Remuneration Committee. On 1 October 2013, Mr. Thaddeus Thomas Beczak was appointed as an INED and chairman of the Remuneration Committee and a member of the Audit Committee in compliance with Rules 3.10(1), 3.21 and 3.25 of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), as set out in Appendix 10 to the Listing Rules, as its own securities code. All directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standards set out in the Model Code throughout the year ended 31 December 2013.

AUDIT COMMITTEE

The Audit Committee reviewed, with management and the external auditor of the Company, the accounting principles and practices adopted by the Group and discussed / assessed all key auditing, internal controls and financial reporting matters, including a review of the interim consolidated financial statements of the Group for the six months ended 30 June 2013 and the audited consolidated financial statements of the Group for the year ended 31 December 2013.

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

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

PUBLICATION OF FURTHER INFORMATION

The 2013 Annual Report of the Company containing all information required by Appendix 16 to the Listing Rules will be published on both the websites of Hong Kong Exchanges and Clearing Limited and the Company in due course.

APPRECIATION

Mr. Shane Frederick Weir retired as an Independent Non-Executive Director on 16 May 2013 and Mr. Thaddeus Thomas Beczak was appointed on 1 October 2013 as his replacement. The Board would like to express its appreciation to Mr. Weir for his valuable contribution during his tenure and welcome Mr. Beczak to the Board. The Board would like to thank all fellow directors and employees for their invaluable efforts and hard work, dedication and commitment to the Group and to thank all our customers, shareholders, business associates and professional advisers for their continuous support.

By Order of the Board
Richard John Siemens
Chairman

Hong Kong, 28 March 2014

As at the date of this announcement, the Board of the Company comprises Executive Directors, Richard John Siemens, Lim Shyang Guey and William Bruce Hicks; Non-executive Director, Jennifer Wes Saran; and Independent Non-executive Directors, John William Crawford J.P., Gerald Clive Dobby and Thaddeus Thomas Beczak.