

e-KONG
e-Kong Group Limited
(Incorporated in Bermuda with limited liability)
www.e-kong.com
(Stock Code : 524)

MAJOR TRANSACTION
PROPOSED ACQUISITION OF TELECOMMUNICATION SERVICES ASSETS
AND RESUMPTION OF TRADING

THE ACQUISITION

On 16 January 2006, ZONE US entered into the Asset Purchase Agreement with the Vendors and the Guarantor to acquire customer and carrier contracts of the Vendors and certain related assets held by the Vendors in connection with the provision by the Vendors of long distance telecommunication services in the United States. The total consideration for the Acquisition will be US\$6.5 million (equivalent to approximately HK\$50.7 million), subject to adjustments, which will primarily be financed by a secured term bank loan facility made available to ZONE US for the purpose of the Acquisition.

The Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is conditional on approval by the Shareholders.

GENERAL

A circular containing, among others, details of the Acquisition and a notice to convene the SGM for the purpose of considering and, if thought fit, approving the Acquisition, will be despatched to the Shareholders as soon as practicable.

SUSPENSION AND RESUMPTION OF TRADING IN THE SHARES

Trading in the Shares was suspended at the request of the Company with effect from 9:30 a.m. on 17 January 2006 pending the issue of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on 19 January 2006.

THE ACQUISITION

On 16 January 2006, ZONE US, a wholly-owned subsidiary of the Company, entered into the Asset Purchase Agreement with the Vendors and the Guarantor to acquire the customer and carrier contracts of the Vendors and certain related assets held by the Vendors in connection with the provision by the Vendors of long distance telecommunication services in the United States.

To the best of the Directors' knowledge, (a) all of the Vendors and the Guarantor and their beneficial owners are not connected persons of the Company, and are third parties independent of the Company and of any connected persons of the Company as defined under the Listing Rules, (b) none of them hold any interest in the issued Share capital of the Company, and (c) no Shareholder has any material interest in the Acquisition.

The total consideration for the Acquisition will be US\$6.5 million (equivalent to approximately HK\$50.7 million), subject to adjustments, US\$6.0 million (equivalent to approximately HK\$46.8 million) of which will be financed by a secured term loan facility made available to ZONE US by the Bank for the specific purpose of the Acquisition and the balance thereof will be financed by internal resources of ZONE US.

THE ASSET PURCHASE AGREEMENT

Date

16 January 2006

Parties

- (a) ZONE US as the purchaser;
- (b) the Vendors as the vendors; and
- (c) the Guarantor as the guarantor for the Vendors.

Assets to be acquired

Pursuant to the Asset Purchase Agreement, the assets to be acquired by ZONE US from the Vendors include:

- (a) Customer Contracts and all customer and other deposits and security held or made available and relating to the Customer Contracts, and receivables and unbilled revenue derived therefrom,
- (b) Carrier Contracts and all deposits and security held by carriers to the credit of or made to the carriers and relating to the Carrier Contracts and payables derived therefrom, and
- (c) all Intellectual Property and other defined assets and rights of the Vendors held in connection with the WRLD Operations.

ZONE US will, subject to the provisions for adjustments to the Consideration as described hereinbelow, assume current liabilities as at the Closing Date relating to the Assets incurred to third parties in the ordinary course of business in the conduct of the WRLD Operations by the Vendors which comprises, among others, customer and other deposits held or made available and relating to the Customer Contracts and the amounts payable in relation to the Carrier Contracts and the Customers Contracts.

Consideration

US\$6.5 million (equivalent to approximately HK\$50.7 million), subject to adjustments as described in the paragraph below entitled "Consideration adjustment mechanism". The Consideration was arrived at after arm's length negotiations by ZONE US with the Vendors and the Guarantor with reference to the price/earnings ratios derived from the Assets. The Consideration represents approximately 3.0 and 2.6 times of the net profit attributable to the Assets for the ten months ended 31 October 2005 and the year ended 31 December 2004, respectively.

Conditions

The completion of the Asset Purchase Agreement is conditional upon, among others, the following events:

- (a) ZONE US obtaining all relevant approvals from governmental regulatory agencies and other regulatory entities that may be required to conduct the WRLD Operations;
- (b) the Vendors securing the written consent of customers to be served by ZONE US under the Customer Contracts representing not less than the Consent Threshold on or before 15 February 2006;
- (c) all consents to the assignment of the Carrier Contracts to ZONE US are obtained;
- (d) if so required under the Listing Rules, the Shareholders pass an ordinary resolution at a general meeting approving the acquisition by ZONE US of the Assets and the assumption of those liabilities as set forth in the Asset Purchase Agreement, in form and substance satisfactory to the Company and the Stock Exchange; and

- (e) the XSI Letter of Credit shall have been released or agreed to be released.

If the condition (b) above is not satisfied on or before 15 February 2006 or the other conditions are not satisfied on or before 17 March 2006, ZONE US may terminate the Asset Purchase Agreement by giving a written notice to the Vendors, whereupon the rights and obligations of the parties thereto will lapse and be of no further effect.

Payment arrangements

The Consideration will be satisfied in cash in the following manner:

- (a) on the Closing Date, payment will be made to the Vendors in an amount equal to the Consideration multiplied by that percentage of Customer Contracts from whom written consents have been delivered by the Vendors to ZONE US, which percentage shall be equal to or exceed the Consent Threshold, subject to any adjustments for the difference in value of the current assets and liabilities to be acquired and assumed by ZONE US; and
- (b) the balance of the Consideration, less any adjustments for Terminated Customer Contracts, will be disbursed to the Vendors on the Final Determination Date.

Consideration adjustment mechanism

The Consideration shall be subject to adjustment if either of the following events occurs:

- (a) the customers whose Customer Contracts representing not less than 5% of the average monthly revenue for the 3-month period prior to the date of signing of the Asset Purchase Agreement refuse or unreasonably fail to grant written consent to the assignment of their respective Customer Contracts prior to the Final Determination Date, then the Consideration payable to the Vendors shall be reduced by a fraction, the numerator of which will be the average monthly revenue of the Terminated Customer Contracts for the 3-month period prior to the execution date, and the denominator of which will be the average monthly revenue for all Customer Contracts of the Vendors for the 3-month period prior to the signing date; and
- (b) the current assets and current liabilities arising from the Customer Contracts and Carrier Contracts that will be acquired and assumed by ZONE US on the Closing Date will not be equal in value, then the Consideration shall be adjusted by the difference between the amount of current liabilities to be assumed by ZONE US and the amount of current assets to be acquired by ZONE US pursuant to the Asset Purchase Agreement, which adjustment will be downward if the amount of current liabilities exceeds that of current assets, and will be upward if the amount of current assets exceeds that of current liabilities.

Completion

Completion of the Asset Purchase Agreement shall take place on the Closing Date at the offices of the Vendors' solicitors, during which the rights, title and interests of and in the Assets will be transferred, records, files and other data in relation thereto will be delivered to ZONE US and such portion of the Consideration as described in the above paragraph entitled "Payment arrangements" will be paid to the Vendors.

Other Provisions

The Guarantor guarantees the performance by each Vendor of its obligations under the Asset Purchase Agreement. In addition, the Guarantor covenants that, within 5 years from the Closing Date, he shall not, among others, directly or indirectly engage in or otherwise hold any interest in a business activity relating to the long distance telecommunication services industry in the United States, or solicit any customer in a Customer Contract to cease or terminate its relationship with ZONE US.

FINANCING

The Acquisition will be primarily financed by a 5-year term loan facility of US\$6.0 million (equivalent to approximately HK\$46.8 million) from the Bank made available to ZONE US. Security for the term loan facility shall be as follows:

- (a) ZONE US Holding will guarantee to the Bank the performance by ZONE US of covenants and obligations to the Bank;
 - (b) a first lien UCC filing will be made on all the business assets of ZONE US, inclusive of the Assets; and
 - (c) the existing shareholders' loan due and owing from ZONE US to the Company will be subordinated to the indebtedness outstanding from ZONE US to the Bank.
- The balance of the Consideration payable to the Vendors will be funded by the internal resources of ZONE US.

INFORMATION ABOUT THE GROUP

The principal activity of the Company is investment holding. The Group's major operating subsidiaries are in the business of providing telecommunication services under the tradename "ZONE". The Group's ZONE telecommunications business currently has operations in the United States, Hong Kong and Singapore.

INFORMATION ABOUT THE VENDORS

The Vendors are a group of related companies, all controlled by the Guarantor or his family members, carrying on the business as, among others, a wholesale reseller of telecommunication services to the independent phone company market in the United States under the tradename "WRLD Alliance". The Vendors, in aggregate, purchase wholesale long distance services from telecommunications companies such as MCI, Qwest, Global Crossing and Sprint, among others. These services are then resold to phone companies, most of which are local exchange carriers, that re-brand the product to end-users.

In addition to the above, the Vendors' product offerings and services also include calling card and branded products such as WRLD VoIP and WRLD Connect Internet Accelerator. The Vendors offer back-office support and marketing consulting services in the telecommunications sector as well.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Vendors have been providing long distance telecommunication services under the tradename "WRLD Alliance" since 1997 to a customer base concentrated in the western United States, including independent local exchange carriers and telephone companies across the States of Iowa, Michigan, Utah, Idaho, Ohio, Montana and others. ZONE US has been reselling telecommunications and related services to corporate and residential customers primarily in the North Eastern States, Florida and California, and recently it has expanded its market territories into mid-West States such as North and South Dakota. While ZONE US is able to and will continue to provide telecommunication services to all the customers in the Customer Contracts under its "ZONE" brandname, the Acquisition will therefore complement the existing business of ZONE US by broadening its revenue sources and customer base. In particular, the Acquisition is expected to help further develop the Group's market position and distribution network in the United States. The Board believes that the Group's operations and future development potential will benefit from the Acquisition.

Based on the unaudited combined financial information attributable to the Assets,

- net revenue for the ten months ended 31 October 2005 and years ended 31 December 2004 and 2003 were US\$21.6 million (equivalent to approximately HK\$168.3 million), US\$20.1 million (equivalent to approximately HK\$156.4 million) and US\$17.8 million (equivalent to approximately HK\$139.1 million), respectively;
- net profit, after adjustments for related party transactions among the group of companies controlled by the Guarantor and members of his family and provision for income taxes, for the ten months ended 31 October 2005 and the years ended 31 December 2004 and 2003 amounted to US\$2.2 million (equivalent to approximately HK\$16.9 million), US\$2.5 million (equivalent to approximately HK\$19.6 million) and US\$1.6 million (equivalent to approximately HK\$12.5 million), respectively;
- net profit, after adjustments for related party transactions aforesaid but before provision for income taxes, for the ten months ended 31 October 2005 and the years ended 31 December 2004 and 2003 amounted to US\$2.2 million (equivalent to approximately HK\$16.9 million), US\$2.5 million (equivalent to approximately HK\$19.7 million) and US\$1.6 million (equivalent to approximately HK\$12.6 million), respectively;
- the book value of the Assets as at 31 October 2005, which book value does not reflect any value of the Customer Contracts, the Carrier Contracts or the Intellectual Property for any of which are not accounted, amounted to US\$4.6 million (equivalent to approximately HK\$35.6 million); and
- the book value of the current liabilities arising from the Assets incurred to third parties in the ordinary course of business in the conduct of the WRLD Operations by the Vendors as at 31 October 2005 amounted to US\$4.6 million (equivalent to approximately HK\$35.6 million).

In light of the above, the Board (including the independent non-executive Directors) is of the view that the terms of the Acquisition are fair and reasonable and in the interests of both the Company and the Shareholders.

IMPLICATIONS UNDER THE LISTING RULES

The Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is conditional on approval by the Shareholders.

A circular containing, among others, details of the Acquisition and a notice to convene the SGM for the purpose of considering and, if thought fit, approving the Acquisition will be despatched to the Shareholders as soon as practicable.

SUSPENSION AND RESUMPTION OF TRADING IN THE SHARES

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DEFINITIONS

"Acquisition"	means the proposed transactions contemplated under the Asset Purchase Agreement
"Assets"	means the customer and carrier contracts of and certain related assets held by the Vendors to be acquired under the Asset Purchase Agreement
"Asset Purchase Agreement"	means the conditional asset purchase agreement dated 16 January 2006 entered into between ZONE US, the Vendors and the Guarantor relating to the acquisition of the Assets, as further described in this announcement
"Bank"	means Philadelphia Private Bank (a division of The Bancorp Bank), a charter member bank in the State of Delaware, the United States
"Board"	means the board of Directors
"Carrier Contracts"	includes all agreements, application forms, term contracts, and other contractual instruments forming part of or relating to long distance telecommunication carrier accounts of CUCL and SAM as at the Closing Date, including all carrier records, files, data and similar items (other than those portions expressly excluded in the Asset Purchase Agreement) and all CUCL's and SAM's rights and remedies arising from or in connection with any breaches, defaults or other violations of any of the foregoing
"Closing Date"	means the later of (a) the 5th business day following the satisfaction of the first 3 conditions described in the paragraph entitled "Conditions" and (b) the day on which all of the conditions are satisfied
"Company"	means e-Kong Group Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange

"Consent Threshold"	means eighty per cent (80%) of the average monthly revenue generated from the Customer Contracts in aggregate during the three-month period prior to the signing of the Asset Purchase Agreement
"Consideration"	means the consideration payable to the Vendors pursuant to the Asset Purchase Agreement
"CUC"	means Central Utah Communications, Inc., a Nevada corporation
"CUCL"	means Central Utah Communications Leasing, LC., a Utah limited liability company
"Customer Contracts"	includes all agreements, application forms, term contracts, letters of agency and other contractual instruments forming part of or relating to active or inactive long distance telecommunication customer accounts of CUC as at the Closing Date, including all past and present customer lists, records, files, data, letters of agency, sub-CIC arrangements, licences, consents, permits and other documents and items thereunder (other than those portions expressly excluded in the Asset Purchase Agreement), and all CUC's rights and remedies arising from or in connection with any breaches, defaults or other violations of any of the foregoing
"Director(s)"	means the director(s) of the Company
"Final Determination Date"	means the date to determine whether a Customer Contract is a Terminated Customer Contract which shall be made on the date that is 30 days after the Closing Date
"Guarantor"	means Mr. Dale H. Lewis, an individual, residing in the State of Utah, the United States who, together with members of his family, controls the Vendors
"Group"	means the Company and its subsidiaries
"HK\$"	means Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	means the Hong Kong Special Administrative Region of the People's Republic of China
"Intellectual Property"	includes patents and patent applications, trademarks, service marks, logos, trade names and corporate names and registrations and applications for registration thereof, copyrights, computer software, data and documentation, customer and supplier lists and information, internet domain names and applications for domain names, all owned or used by any of the Vendors to the extent relating to or used or held for use in connection with the WRLD Operations
"Listing Rules"	means The Rules Governing the Listing of Securities on the Stock Exchange
"SAM"	means Strategic Alliance Management, Inc., a Nevada corporation
"SGM"	means the special general meeting of the Company to be held on Wednesday, 22 February 2006 at 11:00 a.m., and any adjournment thereof
"Share(s)"	means share(s) of HK\$0.01 each in the issued and fully paid up share capital of the Company
"Shareholder(s)"	means holder(s) of the Shares
"SPRING"	means The Spring Trust, a trust established under the laws of the State of Utah, the United States
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited
"Terminated Customer Contracts"	means a Customer Contract for which the Vendors have not obtained a customer consent and either (a) such customer has refused to provide such customer consent consistent with its contracts with the Vendors; or (b) ZONE US or the Vendors has determined that such Customer Contract should be terminated due to the customer's breach of the assignment provisions therein and such customer fails or refuses to accept service from ZONE US
"UCC"	means Uniform Commercial Code of the United States
"US\$"	means United States dollar(s), the lawful currency of the United States, and the exchange rate for the purpose of this announcement is US\$1 = HK\$7.8
"Vendors"	means collectively CUC, CUCL, SAM and SPRING and a "Vendor" means any of them
"WRLD Operations"	means the operations and business of reselling long distance telecommunication services in the United States presently carried on by the Vendors under the tradename "WRLD Alliance"
"XSI Letter of Credit"	means the letter of credit in the approximate sum of US\$600,000 issued by UBS Financial Services, Inc. at the request of CUC in favour of Xtension Services, Inc. (an independent third party not connected with any of the Vendors, their beneficial owners, the Company or any of its subsidiaries) and all those accounts and deposits pledged with UBS Financial Services, Inc. as security for issuing the aforesaid letter of credit
"ZONE US"	means Zone Telecom, Inc., a wholly-owned subsidiary of the Company, whose business is the provision of telecommunication and related services in the United States under the tradename "ZONE"
"ZONE US Holding"	means Zone USA, Inc., a wholly-owned subsidiary of the Company and the immediate holding company of ZONE US, whose sole business is the holding of ZONE US
"%"	means per cent

By Order of the Board
Lau Wai Ming Raymond
Company Secretary

Hong Kong, 18 January 2006

As at the date of this announcement, the Board of the Company comprises Executive Directors Mr. Richard John Siemens, Mr. Kuldeep Saran and Mr. Lim Shyang Guey; Non-executive Director Mr. William Bruce Hicks and Independent Non-executive Directors Mr. Shane Frederick Weir, Mr. John William Crawford and Mr. Gerald Clive Dobby.