



INTERIM REPORT 2003



EZCOM

BRING TECHNOLOGY TO LIFE

EZCOM HOLDINGS LIMITED

易通控股有限公司*

(incorporated in Bermuda with limited liability)

* For identification purpose only.

RESULTS

The directors (the "Directors") of Ezcom Holdings Limited (the "Company") announce that the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 31 October 2003 as follows:

CONSOLIDATED PROFIT & LOSS ACCOUNT

| | | Unaudited Six months ended 31 October | |
|--|-------------|--|--------------------|
| | <i>Note</i> | 2003 HK\$'000 | 2002 HK\$'000 |
| Turnover – Sale of goods | 2 | 1,506,945 | 1,576,819 |
| Cost of sales | | <u>(1,445,787)</u> | <u>(1,473,241)</u> |
| Gross profit | | 61,158 | 103,578 |
| Other revenues | | 1,181 | 3,307 |
| Distribution costs | | (10,506) | (53,648) |
| Administrative expenses | | (11,867) | (36,193) |
| Gain on disposal of subsidiaries | 3 | – | 30,337 |
| Goodwill amortization | | <u>(15,490)</u> | <u>(12,593)</u> |
| Operating profit | 2, 4 | 24,476 | 34,788 |
| Finance costs | | (2,264) | (3,039) |
| Share of profit of an associated company | | <u>1,948</u> | <u>–</u> |
| Profit before taxation | | 24,160 | 31,749 |
| Taxation | 6 | <u>(8,327)</u> | <u>(3,616)</u> |
| Profit after taxation | | 15,833 | 28,133 |
| Minority interests | | <u>(1,027)</u> | <u>(1,540)</u> |
| Profit attributable to shareholders | | <u>14,806</u> | <u>26,593</u> |
| | | | As restated |
| Earnings per share – Basic | 7 | <u>2.54 cents</u> | <u>13.59 cents</u> |

CONSOLIDATED BALANCE SHEET

| | | Unaudited 31 October 2003 HK\$'000 | Audited 30 April 2003 HK\$'000 |
|--|-------------|---|---|
| | <i>Note</i> | | |
| Goodwill | 8 | 257,961 | 273,451 |
| Fixed assets | 8 | 15,099 | 15,272 |
| Interest in an associated company | | 36,611 | 35,680 |
| Deferred tax assets | | 348 | – |
| Notes receivable | | 22,801 | 12,411 |
| Current assets | | | |
| Inventories | | 59,358 | 128,428 |
| Trade receivables | 9 | 371,273 | 172,932 |
| Prepayments, deposits and other receivables | | 97,579 | 86,238 |
| Due from related companies | 10 | 27,241 | 322,988 |
| Tax recoverable | | 3,060 | 7,557 |
| Pledged bank deposits | | 106,953 | 74,515 |
| Bank balances and cash | | 101,937 | 101,655 |
| | | 767,401 | 894,313 |
| Current liabilities | | | |
| Trade and bills payables | 11 | 482,010 | 572,270 |
| Accrued charges and other payables | | 4,056 | 4,578 |
| Due to directors | | – | 100 |
| Due to a related company | 10 | 4,131 | 68 |
| Sales deposits received | | – | 32,013 |
| Tax payable | | 3,699 | – |
| Current portion of interest-bearing borrowings | 12 | 108,466 | 111,848 |
| | | 602,362 | 720,877 |
| Net current assets | | 165,039 | 173,436 |
| Total assets less current liabilities | | 497,859 | 510,250 |
| Financed by: | | | |
| Share capital | 13 | 6,115 | 1,019 |
| Reserves | | 470,653 | 409,987 |
| Shareholders' funds | | 476,768 | 411,006 |
| Minority interests | | 17,218 | 16,189 |
| Convertible notes | 16 | – | 72,247 |
| Non-current portion of interest-bearing borrowings | 12 | 3,780 | 4,234 |
| Non-current amounts due to directors | | – | 6,574 |
| Deferred tax liabilities | | 93 | – |
| | | 497,859 | 510,250 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Unaudited | |
|---|-------------------------|-----------------|
| | Six months ended | |
| | 31 October | |
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Net cash inflow/(outflow) from operating activities | 73,917 | (43,838) |
| Net cash outflow from investing activities | (41,933) | (3,990) |
| Net cash outflow from financing | (31,702) | (60,863) |
| Increase/(decrease) in cash and cash equivalents | 282 | (108,691) |
| Cash and cash equivalents at the beginning of the period | 101,655 | 113,096 |
| Cash and cash equivalents at the end of the period | 101,937 | 4,405 |
| Analysis of balances of cash and cash equivalents | | |
| Bank balances and cash | 101,937 | 4,405 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital | Share premium | Unaudited Exchange fluctuation reserve | Retained profits | Total |
|---------------------------|--------------------------|--------------------------|---|-----------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At 1 May 2003 | 1,019 | 621,274 | – | (211,287) | 411,006 |
| Issue of shares | 5,096 | 45,860 | – | – | 50,956 |
| Profit for the period | – | – | – | 14,806 | 14,806 |
| At 31 October 2003 | 6,115 | 667,134 | – | (196,481) | 476,768 |
| At 1 May 2002 | 509,556 | 112,737 | 91 | (200,198) | 422,186 |
| Disposal of subsidiaries | – | – | (91) | – | (91) |
| Profit for the period | – | – | – | 26,593 | 26,593 |
| At 31 October 2002 | 509,556 | 112,737 | – | (173,605) | 448,688 |

NOTES TO CONDENSED ACCOUNTS

(1) BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants (the "HKSA").

These condensed accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 30 April 2003 except that the Group has changed its accounting policy following its adoption of SSAP12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The changes to the Group's accounting policy and the effect of adopting this new policy are set out below:

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associate, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied prospectively as the effect of this change in accounting policy is not material and, therefore, the opening balances have not been restated.

As a result of the adoption of this accounting policy, the Group's profit for the six months ended 31 October 2003 and the net assets as at 31 October 2003 have been increased by HK\$255,000 (2002: Nil).

(2) SEGMENTAL INFORMATION

The Group is principally engaged in the trading of mobile phones, parts and components. An analysis of the Group's turnover and results for the period is as follows:

(a) Primary reporting format – business segments

| | Unaudited Six months ended 31 October | | | | | | | |
|--|--|------------------------------|------------------------------|-------------------|---------------------------|------------------------------|------------------------------|-------------------|
| | 2003 | | | | 2002 | | | |
| | Continuing operation | | Discontinued operation | | Continuing operation | | Discontinued operation | |
| | Mobile Phones HK\$'000 | Office Furniture HK\$'000 | Kitchen Cabinets HK\$'000 | Total HK\$'000 | Mobile Phones HK\$'000 | Office Furniture HK\$'000 | Kitchen Cabinets HK\$'000 | Total HK\$'000 |
| Turnover | 1,506,945 | - | - | 1,506,945 | 1,407,804 | 151,248 | 17,767 | 1,576,819 |
| Segment results | 38,896 | - | - | 38,896 | 24,750 | (8,238) | (105) | 16,407 |
| Unallocated income/costs | | | | | | | | |
| Interest income | | | | 1,070 | | | | 637 |
| Goodwill amortization | | | | (15,490) | | | | (12,593) |
| Gain on disposal of subsidiaries | | | | - | | | | 30,337 |
| Operating profit | | | | 24,476 | | | | 34,788 |
| Finance costs | | | | (2,264) | | | | (3,039) |
| Share of profit of an associated company | | | | 1,948 | | | | - |
| Profit before taxation | | | | 24,160 | | | | 31,749 |
| Taxation | | | | (8,327) | | | | (3,616) |
| Profit after taxation | | | | 15,833 | | | | 28,133 |
| Minority interests | | | | (1,027) | | | | (1,540) |
| Profit attributable to shareholders | | | | 14,806 | | | | 26,593 |

(b) Secondary reporting format – geographical segments

| | Unaudited Six months ended 31 October | | | |
|--|--|-----------|------------------|----------|
| | Turnover | | Operating profit | |
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| The People's Republic of China excluding Hong Kong ("PRC") | 1,495,584 | 1,573,941 | 24,024 | 41,664 |
| Hong Kong | 11,361 | 2,878 | 452 | (6,876) |
| | 1,506,945 | 1,576,819 | 24,476 | 34,788 |

(3) DISCONTINUED OPERATION

During the year ended 30 April 2003, the Group discontinued the manufacturing and trading of office furniture and building materials, together with the supply of kitchen cabinets. Certain subsidiaries engaged in the office furniture business had been disposed of to Mr. Kok Kin Hok ("Mr. Kok"), the Chairman of the Company, for a consideration of HK\$2,000,000, resulting in a gain of approximately HK\$30,337,000 to the Group.

(4) OPERATING PROFIT

Operating profit is stated after charging the following:

| | Unaudited | |
|------------------------------|-------------------------|----------|
| | Six months ended | |
| | 31 October | |
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Depreciation on fixed assets | 347 | 10,192 |

(5) STAFF COSTS

| | Unaudited | |
|---|-------------------------|----------|
| | Six months ended | |
| | 31 October | |
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Salaries and wages | 7,111 | 38,947 |
| Pension costs-defined contribution plan | 106 | 625 |
| | 7,217 | 39,572 |

(6) TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the period (2002: 16%). In 2003, the Government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. No provision for PRC income tax is made as the PRC subsidiaries of the Company have no assessable profit for the period (2002: Nil). Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rate of taxation prevailing in the country in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

| | Unaudited | |
|---|-------------------------|---------------------|
| | Six months ended | |
| | 31 October | |
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Current Taxation | | |
| – Hong Kong profits tax | 5,556 | 3,616 |
| – Under provision in prior year | 2,641 | – |
| Deferred taxation relating to the origination and reversal of temporary differences | (255) | – |
| Share of taxation attributable to an associated company | 385 | – |
| Taxation charge | <u>8,327</u> | <u>3,616</u> |

(7) EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's earnings attributable to shareholders of HK\$14,806,000 (2002: HK\$26,593,000) and the weighted average of 582,090,206 shares (2002 (restated): 195,669,510 shares as adjusted in light of the Capital Restructuring as referred to in note 13) in issue during the period.

No diluted earnings per share has been presented as the exercise of subscription rights attached to share options of the Company would be anti-dilutive (2002: Nil).

(8) CAPITAL EXPENDITURE

| | Unaudited | |
|----------------------------------|-----------------------|----------------------|
| | Goodwill | Fixed assets |
| | HK\$'000 | HK\$'000 |
| Six months ended 31 October 2003 | | |
| Opening net book amount | 273,451 | 15,272 |
| Additions | – | 176 |
| Disposals | – | (2) |
| Amortisation/depreciation charge | (15,490) | (347) |
| Closing net book amount | <u>257,961</u> | <u>15,099</u> |

At 31 October 2003, the net book value of leasehold land and buildings pledged as security for the Group's bank loan and overdraft facilities amounted to HK\$13,551,000 (30 April 2003: HK\$13,691,000).

(9) TRADE RECEIVABLES

The Group maintains a defined credit policy with credit period of up to 120 days. The ageing of the Group's trade receivables as at 31 October 2003 is analysed as follows:

| | Unaudited 31 October 2003 <i>HK\$'000</i> | Audited 30 April 2003 <i>HK\$'000</i> |
|--------------|---|---|
| 0-60 days | 371,076 | 149,125 |
| 61-120 days | - | 23,786 |
| 121-180 days | - | - |
| >180 days | 197 | 21 |
| | <u>371,273</u> | <u>172,932</u> |

(10) DUE FROM/(TO) RELATED COMPANIES

| | | Unaudited 31 October 2003 <i>HK\$'000</i> | Audited 30 April 2003 <i>HK\$'000</i> |
|----------------------------------|--------------|---|--|
| China Kejian Corporation Limited | <i>(i)</i> | 27,241 | 320,324 |
| China Kejian Corporation Limited | <i>(i)</i> | - | (68) |
| Lamex China Limited | <i>(ii)</i> | - | 2,664 |
| Ezze Mobile Tech. Inc. | <i>(iii)</i> | (4,131) | - |
| | | <u>23,110</u> | <u>322,920</u> |

- (i) The amount represented trade receivable, other receivable from and other payable to China Kejian Corporation Limited ("China Kejian") and its related company, 深圳科健三星移動有限公司. Mr. Hou Ziqiang and Mr. Kok are respectively the chairman and the managing director of China Kejian. They have significant control on the day to day operations of this company. The amounts are unsecured, interest-free and have a 90 days credit term.
- (ii) The amount represented loan receivable from Lamex China Limited, a company acquired by Mr. Kok from the Group pursuant to the agreement dated 19 August 2002. The amount is unsecured, interest bearing at 2% over the prime rate from time to time quoted by The Hong Kong and Shanghai Banking Corporation Limited per annum and repayable on or before August 2003. The maximum balance outstanding during the period amounted to HK\$2,825,000.
- (iii) The amount represented trade payable to Ezze Mobile Tech Inc., an associated company of the Group. The amount is unsecured, interest-free and had a 90 days credit term.

(11) TRADE AND BILLS PAYABLES

The ageing of the Group's trade and bills payables as at 31 October 2003, based on the credit period allowed by suppliers, is analysed as follows:

| | Unaudited 31 October 2003 <i>HK\$'000</i> | Audited 30 April 2003 <i>HK\$'000</i> |
|--------------|---|---|
| 0-60 days | 478,139 | 572,129 |
| 61-120 days | 2 | - |
| 121-180 days | 3,869 | - |
| >180 days | - | 141 |
| | <u>482,010</u> | <u>572,270</u> |

(12) INTEREST-BEARING BORROWINGS

| | Unaudited 31 October 2003 <i>HK\$'000</i> | Audited 30 April 2003 <i>HK\$'000</i> |
|--|---|---|
| Borrowings – Secured: | | |
| Trust receipt loans | 76,356 | 100,014 |
| Bank loans | 35,890 | 16,068 |
| | <u>112,246</u> | <u>116,082</u> |
| Current portion of interest-bearing borrowings | <u>(108,466)</u> | <u>(111,848)</u> |
| Non-current portion of interest-bearing borrowings | <u>3,780</u> | <u>4,234</u> |

At 31 October 2003, the Group's trust receipt loans and bank loans were repayable as follows:

| | Unaudited 31 October 2003 <i>HK\$'000</i> | Audited 30 April 2003 <i>HK\$'000</i> |
|----------------------------|---|---|
| Within one year | 108,466 | 111,848 |
| In the third to fifth year | 3,780 | 4,234 |
| | <u>112,246</u> | <u>116,082</u> |

(13) SHARE CAPITAL

| | Authorised | | | |
|---|---|-----------------|--|------------------|
| | Ordinary shares of HK\$0.01 each | | Ordinary shares of HK\$0.1 each | |
| | <i>No. of shares</i> | <i>HK\$'000</i> | <i>No. of shares</i> | <i>HK\$'000</i> |
| At 1 May 2002 and 31 October 2002 | – | – | 8,000,000,000 | 800,000 |
| Capital Restructuring (note (iii)) | <u>80,000,000,000</u> | <u>800,000</u> | <u>(8,000,000,000)</u> | <u>(800,000)</u> |
| At 30 April 2003 and 31 October 2003 | <u>80,000,000,000</u> | <u>800,000</u> | <u>–</u> | <u>–</u> |
| | Issued and fully paid | | | |
| | Ordinary shares of HK\$0.01 each | | Ordinary shares of HK\$0.1 each | |
| | <i>No. of shares</i> | <i>HK\$'000</i> | <i>No. of shares</i> | <i>HK\$'000</i> |
| At 1 May 2002 and 31 October 2002 | – | – | 5,095,560,175 | 509,556 |
| Capital Restructuring (note (i)&(ii)) | <u>101,911,203</u> | <u>1,019</u> | <u>(5,095,560,175)</u> | <u>(509,556)</u> |
| At 30 April 2003 | 101,911,203 | 1,019 | – | – |
| Issue of shares under the Open Offer in May 2003 (note (iv)) | <u>509,556,015</u> | <u>5,096</u> | <u>–</u> | <u>–</u> |
| At 31 October 2003 | <u>611,467,218</u> | <u>6,115</u> | <u>–</u> | <u>–</u> |

Note:

By a special resolution passed on 17 April 2003, a capital restructuring (the "Capital Restructuring") was undertaken on 18 April 2003 which involved:

- (i) Share consolidation on the basis that every fifty issued ordinary shares of HK\$0.1 each in the capital of the company were consolidated into one consolidated share of HK\$5.0 each;
- (ii) The nominal value of each of the consolidated shares was reduced from HK\$5.0 to HK\$0.01 each by cancelling HK\$4.99 paid up on each issued consolidated share. The credit of HK\$508,537,000 arising in the books of the Company from such capital reduction was credited to the share premium account;
- (iii) Every ordinary share of HK\$0.1 each in the unissued share capital of the Company was subdivided into ten shares of HK\$0.01 each; and
- (iv) On 29 January 2003, a proposal of an open offer on the basis of an assured allotment of five offer shares for every share held by the qualifying shareholders as referred to the proposal was announced. Upon the close of the open offer on 14 May 2003, the issued share capital of the Company was increased from 101,911,203 to 611,467,218 ordinary shares of HK\$0.01 each by issuing 509,556,015 new shares.

(14) COMMITMENTS**(a) Commitments under operating leases**

As at 31 October 2003, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

| | Unaudited 31 October 2003 <i>HK\$'000</i> | Audited 30 April 2003 <i>HK\$'000</i> |
|---|---|---|
| Not later than one year | 735 | 731 |
| Later than one year and not later than five years | 365 | 550 |
| | <u>1,100</u> | <u>1,281</u> |

(b) Foreign exchange contracts commitments

| | Unaudited 31 October 2003 <i>HK\$'000</i> | Audited 30 April 2003 <i>HK\$'000</i> |
|----------------------------|---|---|
| Foreign exchange contracts | <u>30,129</u> | <u>5,635</u> |

Foreign exchange contracts are entered into primarily to hedge the Group's exposed net monetary liability position in Japanese Yen. By entering into these contracts the impact of foreign currency fluctuation to the Group during the normal course of business is protected.

(c) Other commitments

As at 31 October 2003, the Group had other commitments in respect of:

- (i) a capital injection of HK\$2,187,000 to a subsidiary incorporated in the PRC (2002: Nil);
- (ii) a joint sponsorship of certain advertising and promotion campaigns of HK\$5,850,000 with China Kejian as referred to in note 17 (d) (2002: Nil);
- (iii) a capital injection of HK\$12,885,600 to a company incorporated in the PRC (2002: Nil).

(15) CONTINGENT LIABILITIES

| | Unaudited 31 October 2003 <i>HK\$'000</i> | Audited 30 April 2003 <i>HK\$'000</i> |
|--|---|---|
| Bills of exchange discounted with recourse | <u>188,198</u> | <u>88,718</u> |

(16) CONVERTIBLE NOTES

Convertible notes of HK\$76,914,000 and HK\$81,391,000 were issued by the Company as consideration for acquisition of 19% and 20% beneficial interest in Ezcom Technology Limited from Mr. Kok Kin Hok, the Chairman and a shareholder of the Company, and Mr. Li Tung Wai, a director of Ezcom Technology Limited, respectively, on 28 March 2002. The convertible notes are unsecured, interest-free and repayable on or before 27 March 2004. On 8 November 2002, a convertible note of HK\$88,000,000 was issued by the Company as a consideration for acquisition of 100% beneficial interests in Global Direction Limited from Mr. Kok. Global Direction Limited has an indirect equity interest of 33.98% in Ezze Mobile Tech., Inc, which became the associated company of the Group as a result of the acquisition. The convertible note is unsecured, interest-free and repayable on or before 7 November 2004. These convertible notes have been fully redeemed during the period under review.

The noteholders have the right to convert any part of the principal amount of the convertible notes into ordinary issued shares of HK\$0.01 each of the Company at the price of HK\$5.00 per share (after adjustment in light of the Capital Restructuring as referred to in note 13), subject to adjustment, at any time on or before the expiry date of the notes.

The shares to be issued upon conversion shall rank *pari passu* in all respect with all other existing shares in issue at the date of the conversion and be entitled to all dividends and other distributions the record date of which falls on a date or after the date of the conversion.

(17) RELATED PARTY TRANSACTIONS

Saved as disclosed in note 10(ii) above, the Group entered into the following related party transactions during the current period in the normal course of business at terms mutually agreed with the counterparties:

| | | Unaudited Six months ended 31 October | |
|---|-------------|--|-------------------------|
| | | 2003 | 2002 |
| | | HK\$'000 | HK\$'000 |
| | <i>Note</i> | | |
| Sales to China Kejian and its related companies | <i>(a)</i> | <u>333,999</u> | <u>1,085,103</u> |
| Service income from China Kejian | <i>(a)</i> | <u>-</u> | <u>1,014</u> |
| Purchase from China Kejian | <i>(a)</i> | <u>9,374</u> | <u>-</u> |
| Purchase from Ezze Mobile Tech. Inc. | <i>(b)</i> | <u>211,195</u> | <u>92,800</u> |
| Disposal of subsidiaries to Mr. Kok | <i>(c)</i> | <u>-</u> | <u>2,000</u> |
| Advertising and promotion expenses paid under the joint sponsorship agreement with China Kejian | <i>(d)</i> | <u>5,850</u> | <u>-</u> |

- (a) China Kejian is a company in which Mr. Hou Ziqiang and Mr. Kok are the Chairman and the managing director respectively. They have significant control on the day to day operations of this company.

- (b) As at 7 November 2002, Ezze Mobile Tech. Inc. was a company in which Mr. Kok and Mr. Lam Bing Sum held an indirect 33.98% and a direct 6.8% equity interest respectively. Since 8 November 2002, Ezze Mobile Tech. Inc. became an associated company of the Group.
- (c) Pursuant to the agreement dated 19 August 2002 entered into between the Company and Mr. Kok, the Company has sold the entire equity interest in Lamex China Limited to Mr. Kok for a consideration of HK\$2,000,000. Lamex China Limited is an investment holding company and its subsidiaries were principally engaged in the manufacturing and trading of office furniture and building materials.
- (d) Pursuant to the agreement dated 1 May 2002 entered into between the Group and China Kejian, the Group has agreed to jointly sponsor certain advertising and promotion campaigns of China Kejian.

INTERIM DIVIDEND

The board of directors has resolved not to declare any interim dividend for the six months ended 31 October 2003 (2002: Nil).

BUSINESS REVIEW

The Group's consolidated turnover for the six months ended 31 October 2003 was HK\$1,507 million (2002: HK\$1,577 million). The turnover in the Group's mobile business has modestly increased by approximately 7% from HK\$1,408 million to HK\$1,507 million. It was due to the fact that the Asia telecom market is just bottoming out after the fade of the adverse effects of the Severe Acute Respiratory Syndrome (SARS) in Hong Kong, China and other Asia Pacific countries.

The Group's profit before taxation for the six months ended 31 October 2003 was HK\$24.16 million (2002 profit: HK\$31.75 million). Profit per share amounted to HK\$2.54 cents (2002: HK\$13.59 cents as adjusted).

During the period under review, feature-rich models with colour display such as Kejian K699, K606, K618, K358, K368 and K388 came onto the market, especially K699 and K606 are high-end phones with camera, and also K388 which adopted technologies of PHILIPS such that its standby time can last for 10 days and therefore our consumers became motivated to purchase new models of our products. Ezcom intends to capitalize on this trend by offering a series of new models with advanced features, to simulate demand among our targeted consumers. The Group continued to renew its product line-up, launching several new models with colour screens, camera and multimedia capability.

Attributable to the effort of the Management, the Group's distribution network of mobile handsets in China has been further expanded to 26 major cities, provinces and autonomies with support from more than 100 core distributors and over 5,000 registered retail shops by the end of the six months under review. In addition, we have maintained excellent relationship with our main supplier Samsung, the world's third largest manufacturer of mobile phones.

The period under review also marked the initial rollout of our products outside Mainland China. Since May 2003 Ezcom has already been successfully distributing few models of Kejian brand mobile phones in Hong Kong and Macau to pave the way for our growth in other regions.

The Group has several years of solid experience in purchasing of electronic components. During the period under review, the Group has provided “one-stop” electronic components purchasing services for a number of GSM mobile phone manufacturers in the PRC by utilizing our good relationship with our suppliers of electronic components.

“One-stop” purchasing of electronic components has become the Group’s new focus of growth in profitability apart from the Group’s business of distributing mobile phones.

In technology and research & development, the Group’s acquisition of 33.98% in Ezze Mobile in November 2002 proved to be highly valuable to the Group’s vision to become a full mobile telecommunications solutions provider with premium-value-added services possessing unsurpassed strengths in areas of mobile technology solutions, product designs, production support, quality control and provision of after-sale services.

Apart from assisting in Kejian’s sponsorship to Everton Football Club of English Premier League, the Group has also successfully assisted Kejian in its jersey sponsorship to Hong Kong Representative Team in Invest Hong Kong Football Challenge 2003 against Liverpool in July 2003. The programme has reinforced Kejian’s sports-driven branding initiatives as part of a series of carefully planned sports sponsorship events in soccer and also supported one of the community events in the Hong Kong’s bounce back activities after the outbreak of SARS.

The Group continued to be able to sustain its sound financial position. At 31 October 2003, the Group’s total cash on hand and total bank borrowings aggregated to HK\$102 million and HK\$112 million (30 April 2003: HK\$102 million and HK\$116 million) respectively, in which bank borrowings amounted to HK\$108 million (30 April 2003: HK\$112 million) were repayable within one year from 31 October 2003. The bank borrowings were secured by bank deposits of HK\$107 million (30 April 2003: HK\$75 million) and legal charges on the properties of the Group with an aggregate net book value of HK\$14 million (30 April 2003: HK\$14 million).

The Group’s business transactions, assets and liabilities are mainly denominated in Hong Kong Dollars, Renminbi, Japanese Yen and United States Dollars. It is the Group’s treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. The Group’s major source of funds was cash flow generated from its operating activities and financing from banks and share issuance. The Group does not conduct any foreign currency speculative activities.

The Group had contingent liabilities in respect of bills of exchange discounted with recourse amounted to HK\$188 million (30 April 2003: HK\$89 million) as at 31 October 2003.

Shareholders' funds were maintained at a level of HK\$477 million and the gearing ratio as measured by total bank borrowings to shareholders' funds was 23.5% as at 31 October 2003.

PROSPECTS

The Management anticipates that stable growth in revenue and profits from the Group's distribution of mobile handsets in China, Hong Kong and Macau and supply of mobile phone, electronic components and technology to a number of China's mobile phone manufacturers will enable the Group to achieve continual organic growth.

In light of the highly competitive market and rapidly changing environment, the Group's acquisition of interests in Ezze Mobile in November 2002 brings the Group closer to cutting edge developments in the mobile telecommunications industry, including multi-media messaging, mobile high-speed data transmission via GPRS, 3G or other platforms.

The Management will keep their eyes on business opportunities in 3G handsets since it is likely that the transition from 2G to 3G will span several years and significant volume sales of new 3G mobile phones only possible with the timely and successful construction of 3G networks and debut of 3G services by carriers in the Greater China Region.

The combination of Ezze Mobile's handset design capabilities with Samsung's technology support and Kejian's manufacturing strength will provide the Group with a unique edge over our competitive peers in implementing solutions. In fact, a national survey performed in 2003 on brand identity in China ranked Kejian number one in brand visibility for mobile phones in the country.

Across the Asia, selected industries and geographic regions have their individual challenges, but the overall business environment seems to have become stabilized. The prospect for modest but emerging growth is further enhanced by the implementation of CEPA and other supportive measures introduced by the Chinese government in 2004. The Management anticipates that there will be more opportunities for the Group's business to grow in the PRC of telecommunication market.

In 2004, Ezcom expects total market volumes in mobile handsets to grow by 10% or slightly more. Volume growth in 2004 is expected to be driven by the combined effects of an expanding subscriber base and a stabilizing replacement cycle. Just over a quarter of current PRC subscribers upgrade their handsets annually, which translates to a replacement cycle of roughly 2.5 years. Consumer sentiment is on the rebound and retail sales figure have been improving.

The master business plan also envisages the landing of our products in other new overseas markets. Based on the Group's current successful business models in PRC and Hong Kong, the Group will continue its geographical expansion and enhance its market presence in the other regions such as India which has a very low 1.8% mobile penetration rate and is one of the fastest growing market for mobile communication.

While the Group will maintain its business in distributing Samsung's premium, high-end models, in order to further strengthen the Group's products portfolio, the Group may also distribute mid-end models of Kejian with advanced functionality and will try to provide high quality value-added services to our customers. With a corporate vision to "Bring Technology to Life", Ezcom is committed to becoming a leader in the PRC mobile telecommunications industry.

For the benefits of the shareholders and the Company as a whole, the Board will explore new business expansion and investment opportunities to diversify our business.

EMPLOYEES

As at 31 October 2003, the Group had approximately 30 staff in Hong Kong and had approximately 40 employees in Mainland China. The staff costs, which included salaries, allowance and other benefits in kind amounted to HK\$7,217,000 (2002: HK\$39,572,000). The Group's remuneration policies, discretionary bonus programme and share option scheme for employees are carried out in accordance with the performance of the Group and of individual employees. The Group also provides training, job rotation, insurance and medical benefits to staff. The Group's remuneration policies are revised on a regular basis and remuneration packages are in line with market practices.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 October 2003, the interests and short positions of each director in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO"), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

(a) ordinary shares of HK\$0.01 each in the Company

| | | Number of shares held | | | | Total | Percentage |
|--------------------------------|----------------|-----------------------|------------------|-----------------------|-----------------|-------------|------------|
| | | Personal interests | Family interests | Corporate interests | Other interests | | |
| Director Mr. Kok | Long positions | - | - | 327,625,993 (Note) | - | 327,625,993 | 53.58% |
| Director Mr. Lam Bing Sum | Long positions | 6,100,000 | - | - | - | 6,100,000 | 1.00% |
| Director Mr. Lian Song Qing | Long positions | 8,500,000 | - | - | - | 8,500,000 | 1.39% |

Note: These shares are legally owned by Anglo Express Group Limited and All About Investments Limited, companies incorporated in the British Virgin Islands whose entire issued share capital are legally and beneficially owned by Mr. Kok Kin Hok.

(b) ordinary shares of 500 Korean Won each in Ezze Mobile Tech., Inc.

| | | Number of shares held | | | | Total | Percentage |
|------------------------------|----------------|-----------------------|------------------|---------------------|---------------------|---------------------|------------|
| | | Personal interests | Family interests | Corporate interests | Other interests | | |
| Director Mr. Kok | Long positions | - | - | - | 1,760,000 (Note) | 1,760,000 (Note) | 33.98% |
| Director Mr. Lam Bing Sum | Long positions | 352,000 | - | - | - | 352,000 | 6.80% |

Note: 1,760,000 shares in Ezze Mobile Tech., Inc. ("Ezze Mobile") were held by a subsidiary of the Company. By virtue of his interests in the shares of the Company, Mr. Kok has a duty of disclosure under the SFO in relation to the said shares in Ezze Mobile.

(c) other than those interests and short positions disclosed above, the directors and chief executives also hold shares of certain subsidiaries solely for the purpose of ensuring that the relevant subsidiary has more than one member.

Save as disclosed above, none of the Directors of the Company had, as at 31 October 2003, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S BENEFITS FROM RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the Company's share option schemes adopted on 4 November 1992 and 25 February 1999 (the "Old Option Schemes"), the Company may grant options to employees (including directors) of the Group to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company. The options granted by the share option schemes are exercisable within four to ten years from the date of grant.

The Old Option Schemes were terminated by the Company on 13 March 2002. Upon the termination, no further options can be granted thereunder but in all other respects, the provisions of the Old Options Schemes shall remain in force and all options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

Pursuant to a new share option scheme (the "New Option Scheme") which was adopted by the Company on 13 March 2002, the Company may grant options to employees (including directors) of the Group to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company. The options granted by the share option schemes are exercisable within four to ten years from the date of grant.

Pursuant to the Old Option Schemes of the Company, as at 1 May 2002, 239,724,000 share options were granted with exercise prices ranging from HK\$0.10 to HK\$0.3164 to certain employees including the executive directors of the Company. The holders of the share options were entitled to subscribe for shares of HK\$0.1 each of the Company.

As a result of the Capital Restructuring and the open offer as referred to in note 13, as at 31 October 2003, the exercise prices of the outstanding share options of the Company were adjusted to reflect the effect of the Share Consolidation. Consequently, the total number of the outstanding share options is decreased from 157,224,000 to 18,866,880 and the exercise prices of the share options were adjusted to a range of HK\$5.0 to HK\$15.82. As mentioned in details below, the share options are exercisable during the period from 13 July 1996 to 2 July 2007.

The Old Option Schemes were terminated by the Company on 13 March 2002. Upon the termination, no further options can be granted thereunder but in all other respects, the provisions of the Old Options Schemes shall remain in force and all options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

As at 31 October 2003, details of the outstanding share options granted by the company were set out below:

| Director | Options held at 1 May 2003 (note (a)) | Options granted during the period | Options exercised during the period | Options outstanding at 31 October 2003 (note (a)) | Exercise price per share (note (a)) | Date of grant | Exercisable period |
|--------------------|--|-----------------------------------|-------------------------------------|--|--|-----------------|------------------------------------|
| Mr. Kok Kin Hok | - | 2,500,000 | - | 2,500,000 | HK\$0.306 | 27 October 2003 | 27 October 2003 to 26 October 2008 |
| | 3,600,000 | - | - | 3,600,000 | HK\$0.9936 | 31 August 2001 | 1 September 2001 to 31 August 2005 |
| Mr. Lam Bing Sum | - | 3,700,000 | - | 3,700,000 | HK\$0.306 | 27 October 2003 | 27 October 2003 to 26 October 2008 |
| | 2,400,000 | - | - | 2,400,000 | HK\$0.9936 | 31 August 2001 | 1 September 2001 to 31 August 2005 |
| Mr. Lian Song Qing | - | 6,100,000 | - | 6,100,000 | HK\$0.306 | 27 October 2003 | 27 October 2003 to 26 October 2008 |
| Employees | - | 29,400,000 | - | 29,400,000 | HK\$0.306 | 27 October 2003 | 27 October 2003 to 26 October 2008 |
| | 8,400,000 | - | - | 8,400,000 | HK\$5.00 | 31 August 2001 | 1 September 2001 to 31 August 2005 |
| | 4,320,000 | - | - | 4,320,000 | HK\$5.28 | 3 January 2000 | 3 January 2000 to 2 January 2004 |
| | 112,320 | - | - | 112,320 | HK\$13.10 | 3 July 1997 | 3 July 1997 to 2 July 2007 |
| | 34,560 | - | - | 34,560 | HK\$15.82 | 13 July 1996 | 13 July 1996 to 12 July 2006 |

Note:

- (a) The exercise prices and the number of share options outstanding as at 1 May 2003 have been adjusted for the Capital Restructuring as mentioned in note 13.

The financial impact of options granted is not recorded in the Company's or the Group's accounts until such time as the options are exercised. Upon the exercise of the options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the outstanding options.

The directors do not consider it appropriate to disclose a theoretical value of the options granted during the period to the directors and employees because a number of factors crucial for the valuation are subjective and uncertain. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful and would be misleading.

Apart from the foregoing, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 October 2003, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Divisions 2 and 3 of Part XV of the SFO:

| Name of shareholder of the Company | Number of shares | Percentage of issued share capital |
|---|-------------------------|---|
| Mr. Kok (<i>Note</i>) | 321,525,993 | 52.59% |
| All About Investments Limited (<i>Note</i>) | 287,544,153 | 47.03% |
| Anglo Express Group Limited (<i>Note</i>) | 33,981,840 | 5.56% |

Note: The interest was also disclosed as an interest of Mr. Kok Kin Hok in the section "Directors' Interests" Section of this report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months period ended 31 October 2003, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

This interim report has been reviewed by the Audit Committee of the Board which comprises two Independent Non-Executive Directors.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 31 October 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The Independent Non-Executive Directors of the Company are appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws of the Company.

By Order of the Board
Kok Kin Hok
Chairman

Hong Kong, 19 January 2004