

◆◆◆◆ INTERIM REPORT 2004



INTERIM RESULTS

The directors (the "Directors") of Ezcom Holdings Limited (the "Company") announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2004 together with comparative figures for the six months ended 31 October 2003, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	Unaudited	
		Six months ended	
		30 September	31 October
		2004	2003
		HK\$'000	HK\$'000
Turnover	2	623,586	1,506,945
Cost of sales		(605,619)	(1,445,787)
Gross profit		17,967	61,158
Other operating income		2,153	1,181
Distribution costs		(8,916)	(10,506)
Administrative expenses		(11,606)	(11,867)
Amortization of goodwill		(15,575)	(15,490)
(Loss) profit from operations	2, 3	(15,977)	24,476
Finance costs		(6,464)	(2,264)
Share of results of associates		(26)	1,948
(Loss) profit before taxation		(22,467)	24,160
Taxation	4	(232)	(8,327)
(Loss) profit before minority interests		(22,699)	15,833
Minority interests		1,532	(1,027)
(Loss) profit for the period		(21,167)	14,806
(Loss)/earning per share – Basic	5	(3.20) cents	2.54 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		14,473	14,817
Goodwill	6	239,749	245,053
Interest in associates		45,254	44,986
Investment securities		8,205	8,205
Deferred tax asset		250	250
		307,931	313,311
Current assets			
Inventories		59,081	76,674
Trade receivables	7	324,250	458,363
Deposits, prepayments and other receivables		90,530	80,050
Amount due from related companies		17,135	123,519
Notes receivable		-	7,239
Pledged bank deposits		66,050	74,511
Bank balances and cash		49,165	80,712
		606,211	901,068
Current liabilities			
Trade and bills payables	8	279,117	579,038
Accrued charges and other payables		38,020	17,190
Amount due to an associate		1,100	1,100
Tax payable		14,177	13,651
Secured bank borrowings – due within one year	10	45,223	55,669
		377,637	666,648
Net current assets		228,574	234,420
Total assets less current liabilities		536,505	541,731
Capital and reserves			
Share capital		6,115	6,115
Share premium and reserves		495,940	517,107
Shareholders' funds		502,055	523,222
Minority interests		1,957	21,266
Non-current liabilities			
Promissory note	9	30,000	-
Secured bank borrowings – due after one year	10	2,414	3,164
Deferred tax liability		79	79
		32,493	3,243
		536,505	547,731

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 May 2003	1,019	112,737	508,537	(211,287)	411,006
Issue of ordinary shares	5,096	45,860	–	–	50,956
Profit for the period	–	–	–	14,806	14,806
	<u>6,115</u>	<u>158,597</u>	<u>508,537</u>	<u>(196,481)</u>	<u>476,768</u>
At 31 October 2003	6,115	158,597	508,537	(196,481)	476,768
Profit for the period	–	–	–	46,454	46,454
	<u>6,115</u>	<u>158,597</u>	<u>508,537</u>	<u>(150,027)</u>	<u>523,222</u>
At 31 March 2004	6,115	158,597	508,537	(150,027)	523,222
Loss for the period	–	–	–	(21,167)	(21,167)
	<u>6,115</u>	<u>158,597</u>	<u>508,537</u>	<u>(171,194)</u>	<u>502,055</u>
At 30 September 2004	<u>6,115</u>	<u>158,597</u>	<u>508,537</u>	<u>(171,194)</u>	<u>502,055</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended	
	30 September 2004	31 October 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash (used in) from operating activities	(31,981)	76,180
Net cash from (used in) investing activities	16,144	(41,933)
Net cash used in financing activities	(15,710)	(33,965)
Net (decrease) increase in cash and cash equivalents	(31,547)	282
Cash and cash equivalents at the beginning of the period	<u>80,712</u>	<u>101,655</u>
Cash and cash equivalents at the end of the period	<u>49,165</u>	<u>101,937</u>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	<u>49,165</u>	<u>101,937</u>

NOTES TO CONDENSED ACCOUNTS

(1) BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and with applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

During the period from 1 May 2003 to 31 March 2004, the Company changed its financial year end date from 30 April to 31 March. Therefore, the comparative amounts shown for the consolidated income statement and related notes cover a six-month period from 1 May 2003 to 31 October 2003 and may not be comparable with amounts shown for the current period.

The condensed financial statements have been prepared under the historical cost convention and have been prepared in accordance with accounting principles generally accepted in Hong Kong.

The accounting policies adopted are consistent with those followed in the preparation of the Group's audited financial statements for the period from 1 May 2003 to 31 March 2004.

(2) TURNOVER AND SEGMENTAL INFORMATION

Geographical segments

The Group's operations and assets are located in Hong Kong and elsewhere in the People's Republic of China (the "PRC").

Segment information of the Group by location of customers is presented below:

	Turnover		Contribution to (loss)	
	Six months ended		profit from operations	
	30 September	31 October	30 September	31 October
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	248,766	11,361	2,381	293
The PRC	350,691	1,495,584	3,356	38,603
Others	24,129	—	231	—
	623,586	1,506,945	5,968	38,896
Amortization of goodwill			(15,575)	(15,490)
Interest income			460	1,070
Unallocated corporate expenses			(6,830)	—
(Loss) profit from operations			(15,977)	24,476

Business segments

The Group is principally engaged in the trading of mobile phones and spare parts. No business segment analysis is presented for the current period as management consider the Group operates in one single business segment.

(3) (LOSS) PROFIT FROM OPERATIONS

(Loss) profit from operations has been arrived at after charging/(crediting):

	Unaudited	
	Six months ended	
	30 September	31 October
	2004	2003
	HK\$'000	HK\$'000
Amortization of goodwill	15,575	15,490
Depreciation	347	347
Exchange loss (gain), net	457	(694)
Interest income	(460)	(1,070)
	<u> </u>	<u> </u>

(4) TAXATION

The taxation charge comprises:

	Unaudited	
	Six months ended	
	30 September	31 October
	2004	2003
	HK\$'000	HK\$'000
Hong Kong Profits Tax		
– Current period	850	5,556
– (Over) under provision in respect of prior periods	(324)	2,641
	<u> </u>	<u> </u>
	526	8,197
Deferred tax credit for the period	–	(255)
	<u> </u>	<u> </u>
Taxation attributable to the Company and its subsidiaries	526	7,942
Share of taxation of associates	(294)	385
	<u> </u>	<u> </u>
	232	8,327
	<u> </u>	<u> </u>

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the period.

(5) (LOSS) EARNING PER SHARE

The calculation of the basis (loss) earning per share is based on the loss for the period of approximately HK\$21,167,000 (six months ended 31 October 2003: profit of approximately HK\$14,806,000) and the weighted average number of 611,467,218 (six months ended 31 October 2003: 582,090,206) shares.

No diluted loss per share was presented for the current and prior periods as the exercise of share options would be anti-dilutive.

(6) GOODWILL

During the period, the Group entered into an agreement with Mr. Li Tung Wai, who is the shareholder and director of Future Circle Holdings Limited ("Future Circle"), a subsidiary of the Group, for the acquisition of 33.3% of the issued share capital of Future Circle by the Group from Mr. Li at a consideration of HK\$30 million which has been satisfied by the Group by issuing a promissory note with an equivalent principal amount. Upon the completion of the acquisition, Future Circle becomes a wholly-owned subsidiary of the Group. This acquisition gives rise to the recognition of goodwill of approximately HK\$10.3 million during the period. Details of the acquisition are set out in the Company's circular dated 28 September 2004.

(7) TRADE RECEIVABLES

The Group maintains a defined credit policy with a credit period up to 120 days. The following is an aged analysis of trade receivables at the balance sheet date:

	Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
Current – 60 days	280,926	433,125
61 – 120 days	14,776	25,238
121 – 180 days	28,548	–
	<u>324,250</u>	<u>458,363</u>

Included in trade receivables is an amount of approximately HK\$69,576,000 (31 March 2004: HK\$123,132,000) receivable from an agent of China Kejian Corporation Limited ("China Kejian"). Mr. Hou Ziqiang and Mr. Kok Kin Hok, directors of the Company, were the chairman and the managing director of China Kejian as at 30 September 2004 respectively. They have significant control on the day-to-day operations of China Kejian. The amount is unsecured, interest free and repayable in accordance with general trading terms.

(8) TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bill payables at the balance sheet date:

	Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
0–60 days	194,977	579,038
61–120 days	37,699	–
121–180 days	46,441	–
	<u>279,117</u>	<u>579,038</u>

(9) PROMISSORY NOTE

During the period, the Company issued promissory note of principal amount of HK\$30 million as the consideration for the acquisition as referred to in note 6. The promissory note is unsecured and carries interest at 1% per annum.

(10) SECURED BANK BORROWINGS

During the period, the Group repaid bank loans of approximately HK\$11,196,000.

(11) CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following capital commitments contracted but not provided for in the financial statements:

	Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
Capital contribution to an investee company	4,680	4,680
joint sponsorship of certain advertising and promotion campaigns with China Kejian	—	2,925
	<u>4,680</u>	<u>7,605</u>

(12) RELATED PARTY TRANSACTIONS

Apart from the amounts owed by and to related parties as disclosed in the condensed consolidated balance sheet which are unsecured, interest free and repayable on demand, the Group entered into the following transactions with related parties during the period:

		Unaudited Six months ended 30 September 2004 HK\$'000	31 October 2003 HK\$'000
Sales to China Kejian, its agents and its related companies	(a)	<u>129,664</u>	<u>333,999</u>
Purchase from China Kejian and its agents	(a)	<u>3,547</u>	<u>9,374</u>
Purchase from Ezze Mobile Tech., Inc.	(a)	<u>292</u>	<u>211,195</u>
Acquisition of equity interest in a subsidiary from Mr. Li Tung Wai	(b)	<u>30,000</u>	<u>—</u>
Advertising and promotion expenses paid under the joint sponsorship agreement with China Kejian	(c)	<u>—</u>	<u>5,850</u>

- (a) Sale and purchase transactions were carried out at cost plus a percentage of mark-up.
- (b) Pursuant to an agreement dated 7 September 2004 entered into between the Company and Mr. Li Tung Wai, the Company has acquired 33.3% of the issued share capital of an existing subsidiary of the Company at a consideration of HK\$30 million which has been satisfied by the Company by issuing a promissory note with an equivalent principal amount. The promissory note is unsecured, carries interest at 1% per annum and is repayable by the Company on or before 23 September 2006.
- (c) 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 30 September 2004 (2003: Nil).

BUSINESS REVIEW

The Group's consolidated turnover for the six months ended 30 September 2004 was approximately HK\$624 million (2003: HK\$1,507 million). The turnover in the Group's mobile business has decreased by approximately 58.6% which was due to the stiff competition of the mobile phone market in the PRC and also drop in the business of supplying parts and components of mobile phones.

The Group's loss before taxation for the six months ended 30 September 2004 was approximately HK\$22.47 million (profit for six months ended 31 October 2003: HK\$24.16 million). Loss per share amounted to HK\$3.20 cents (profit per share for six months ended 31 October 2003: HK\$2.54 cents).

During the period under review, feature-rich models with colour display came onto the market 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.

The Group's distribution network of mobile handsets in China covers 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 second largest manufacturer of mobile phones.

The period under review also marked the initial rollout of our products outside China. Since May 2004 Ezcom has already been successfully distributing few models of Kejian brand mobile phones in India to pave the way for our growth in other developing countries.

The Group continued to be able to sustain its sound financial position. At 30 September 2004, the Group's total cash on hand and total bank borrowings aggregated to HK\$49 million and HK\$48 million (31 March 2004: HK\$81 million and HK\$59 million) respectively, in which bank borrowings amounted to HK\$45 million (31 March 2004: HK\$56 million) were repayable within one year from 30 September 2004. The bank borrowings were secured by bank deposits of HK\$66 million (31 March 2004: HK\$75 million) and legal charges on the properties of the Group with an aggregate net book value of HK\$13 million (31 March 2004: HK\$13 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 no material contingent liabilities in respect of bills of exchange discounted with recourse as at 30 September 2004 (31 March 2004: HK\$189 million).

Shareholders' funds were maintained at a level of HK\$502 million and the gearing ratio as measured by total bank borrowings to shareholders' funds was 9.6% as at 30 September 2004.

PROSPECTS

The Management will keep their eyes on business opportunities in 3G handsets since it may be a business focus of the Group after the completion of construction of 3G networks and debut of 3G services by carriers in the PRC.

In view of the continuing growth of the consumer market in China, coupled with the popularity of Samsung mobile phones in the PRC, the Management remains optimistic about the operating results of the second half of the financial year.

The Management will continue to strengthen its existing market coverage by expanding its distribution networks especially that Hong Kong and foreign companies are now allowed to directly invest in the sector of distribution of consumer digital products in the PRC.

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 30 September 2004, 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 approximately HK\$7,121,000 (2003: HK\$7,217,000). 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. During the six months period under review, no options have been offered and/or granted to its employees under the new share option scheme adopted on 13 March 2002.

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

As at 30 September 2004, 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		
Mr. Kok	Long positions	-	-	329,181,993 (Note)	-	329,181,993	53.83%
Mr. Lam Bing Sum	Long positions	6,100,000	-	-	-	6,100,000	1.00%
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		
Mr. Kok	Long positions	-	-	-	1,760,000 (Note)	1,760,000 (Note)	33.98%
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 30 September 2004, 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.

As at 30 September 2004, details of the outstanding share options granted by the Company were set out below:

	Outstanding at 1 April 2004	Granted during the period	Lapsed during the period	Outstanding at 30 September 2004	Exercise price per share	Date of grant	Exercisable period
Directors							
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
	<u>3,600,000</u>	<u>-</u>	<u>-</u>	<u>6,100,000</u>			
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
	<u>2,400,000</u>	<u>-</u>	<u>-</u>	<u>6,100,000</u>			
Mr. Lian Song Qing	<u>6,100,000</u>	<u>-</u>	<u>-</u>	<u>6,100,000</u>	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\$0.9936	31 August 2001	1 September 2001 to 31 August 2005
	<u>37,800,000</u>	<u>-</u>	<u>-</u>	<u>37,800,000</u>			

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 30 September 2004, 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>)	322,303,993	52.71%
All About Investments Limited (<i>Note</i>)	287,544,153	47.03%
Anglo Express Group Limited (<i>Note</i>)	34,759,840	5.68%

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 30 September 2004, 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 30 September 2004, 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, 29 December 2004