

# Notes to the Accounts

## 1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). The accounts are prepared under the historical cost convention.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAP") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 33	:	Discontinuing operations
SSAP 34 (revised)	:	Employee benefits

The adoption of these new and revised policies has no material impact on the accounts of the Company and the Group in the current and prior years. Certain presentational changes, however, have been made upon the adoption of SSAP 1 (revised): "Presentation of financial statements" and SSAP 15 (revised): "Cash flow statements".

### (b) Group accounting

#### (i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30th April.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meeting of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### 1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### (b) Group accounting *(continued)*

##### (i) Consolidation *(continued)*

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and also any related exchange fluctuation reserve and merger reserve on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

##### (ii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

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

##### (iii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

### 1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### (c) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life of 10 years.

Goodwill on acquisitions that occurred prior to 1st January 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets over the costs of acquisition.

For acquisitions on or after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

Where an indication of impairment exists, the carrying amount of goodwill, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

### 1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### (d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Leasehold land including land use rights and buildings and leasehold improvements are depreciated over the shorter of the periods of the leases or their expected useful lives to the Group. Other fixed assets are depreciated at rates sufficient to write off their cost less any accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold land including land use rights and buildings	2% to 7%
Leasehold improvements	5% to 50%
Plant and machinery	20%
Furniture, fixtures and office equipment	20%
Motor vehicles and motor launch	30%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that any fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

#### (e) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

#### (f) Inventories

Inventories represent finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises cost of purchase at invoiced value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### 1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### **(g) Trade receivables**

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

#### **(h) Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from the date of investment and net with bank overdrafts.

#### **(i) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

#### **(j) Employee benefits**

##### *(i) Employee leave entitlements*

SSAP 34 (revised) specifies that employee entitlements to annual leave shall be recognised when they accrue to employees. A provision shall be made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

This is a new policy applied upon the adoption of SSAP 34 (revised). However, the accounts for the prior periods have not been restated as the effect of this new policy is not material to the accounts.

##### *(ii) Bonus plans*

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

**1. PRINCIPAL ACCOUNTING POLICIES** *(continued)*

**(j) Employee benefits** *(continued)*

*(iii) Pension obligations*

The Group has a Mandatory Provident Fund Scheme ("MPF Scheme") which is set up in accordance with the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held in a separately administered fund.

All permanent staff located in Hong Kong whose employment period reaches 60 days or more must join the MPF Schemes. The contributions to the MPF Scheme made by the Group for permanent staff is calculated at 5% of the individual's "relevant income" as prescribed in the Mandatory Provident Fund Schemes Ordinance with a maximum amount of HK\$1,000 per month.

The Group's contributions to the MPF scheme are expensed as incurred. No forfeited contributions have been utilised by the Group to reduce the existing contributions.

**(k) Deferred taxation**

Deferred taxation is 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 is expected to be payable or recoverable in the foreseeable future.

**(l) Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

**(m) Revenue recognition**

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from provision of services is recognised when the services are rendered.

### 1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

#### **(m) Revenue recognition** *(continued)*

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Franchise income is recognised when the right to receive payment is established.

#### **(n) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

#### **(o) Segment reporting**

In accordance with the Group's internal financial reporting practices, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of goodwill, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain bank borrowings. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, revenues and results are based on the location in which the customer is located. Total assets and capital expenditure are based on where the assets are located.

**2. TURNOVER, REVENUE AND SEGMENT INFORMATION**

(a) The Group is principally engaged in the trading of mobile phones and spare parts. The businesses of manufacturing and trading of office furniture and building materials, together with supply of kitchen cabinets, are discontinued during the year. Revenues recognised during the year are as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Turnover		
Sale of goods	<u><b>2,699,784</b></u>	<u>1,480,218</u>
Other revenues		
Rendering of services	<b>13,447</b>	21,708
Interest income	<b>6,064</b>	1,609
Franchise income	<b>167</b>	735
Others	<b>140</b>	–
	<u><b>19,818</b></u>	<u>24,052</u>
Total revenues	<u><b>2,719,602</b></u>	<u>1,504,270</u>

(b) The Group is organised into three main business segments:

- (i) Mobile phones and spare parts – trading of mobile phones and spare parts
- (ii) Office furniture and building materials – manufacturing and trading of office furniture and building materials
- (iii) Kitchen cabinets – supply of kitchen cabinets

There are no sales or other transactions among the business segments.



## Notes to the Accounts *(continued)*

### 2. TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

(c) Primary reporting format – business segments

	<b>Mobile phones and spare parts 2003 HK\$'000</b>	<b>Office furniture and building materials 2003 HK\$'000</b>	<b>Kitchen cabinets 2003 HK\$'000</b>	<b>Group 2003 HK\$'000</b>
Turnover	2,530,769	168,145	870	2,699,784
Segment results	8,984	(7,898)	(459)	627
Amortisation of goodwill				(28,109)
Gain/(loss) on disposal of subsidiaries				28,544
Interest income				6,064
Unallocated costs				(15,181)
Operating loss before finance costs				(8,055)
Finance costs				(5,620)
Share of profit of an associated company				343
Loss before taxation				(13,332)
Taxation credit				1,831
Loss after taxation				(11,501)
Minority interests				412
Loss attributable to shareholders				(11,089)
Segment assets	1,153,056	–	–	1,153,056
Unallocated assets				78,071
Total assets				1,231,127
Segment liabilities	730,545	–	–	730,545
Unallocated liabilities				73,387
Total liabilities				803,932
Capital expenditure	1,388	3,062	–	4,450
Depreciation	8,990	666	–	9,656
Amortisation	28,109	–	–	28,109

## Notes to the Accounts *(continued)*

### 2. TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

(c) Primary reporting format – business segments *(continued)*

	Mobile phones and spare parts 2002 HK\$'000	Office furniture and building materials 2002 HK\$'000	Kitchen cabinets 2002 HK\$'000	Group 2002 HK\$'000
Turnover	<u>905,804</u>	<u>489,643</u>	<u>84,771</u>	<u>1,480,218</u>
Segment results	<u>82,002</u>	<u>(52,425)</u>	<u>(14,830)</u>	14,747
Amortisation of goodwill				(8,289)
Gain/(loss) on disposal of subsidiaries				(66,431)
Loss on disposal of long-term investments				(33,921)
Impairment losses on leasehold land, land use rights and buildings				(103,270)
Interest income				1,609
Unallocated costs				<u>(15,602)</u>
Operating loss before finance costs				(211,157)
Finance costs				<u>(7,224)</u>
Loss before taxation				(218,381)
Taxation charge				<u>(12,064)</u>
Loss after taxation				(230,445)
Minority interests				<u>(24,188)</u>
Loss attributable to shareholders				<u>(254,633)</u>
Segment assets	759,491	328,992	–	1,088,483
Unallocated assets				<u>–</u>
Total assets				<u>1,088,483</u>
Segment liabilities	276,066	96,505	–	372,571
Unallocated liabilities				<u>276,621</u>
Total liabilities				<u>649,192</u>
Capital expenditure	14,904	16,732	507	32,143
Depreciation	336	24,833	276	25,445
Amortisation	8,289	–	–	8,289
Impairment charge	–	103,270	–	<u>103,270</u>

## Notes to the Accounts *(continued)*

### 2. TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

(d) Secondary reporting format – geographical segments

	<b>Turnover</b> <b>2003</b> <b>HK\$'000</b>	<b>Segment</b> <b>results</b> <b>2003</b> <b>HK\$'000</b>	<b>Total assets</b> <b>2003</b> <b>HK\$'000</b>	<b>Capital</b> <b>expenditure</b> <b>2003</b> <b>HK\$'000</b>
Hong Kong	870	(459)	688,945	1,388
The People's Republic of China excluding Hong Kong (the "PRC")	2,698,914	1,086	506,502	3,062
Korea	–	–	35,680	–
Others	–	–	–	–
	<u>2,699,784</u>	<u>627</u>	<u>1,231,127</u>	<u>4,450</u>
Amortisation of goodwill		(28,109)		
Gain/(loss) on disposal of subsidiaries		28,544		
Interest income		6,064		
Unallocated costs		(15,181)		
Finance costs		(5,620)		
Share of profit of an associated company		<u>343</u>		
Loss before taxation		<u>(13,332)</u>		
	<b>Turnover</b> <b>2002</b> <b>HK\$'000</b>	<b>Segment</b> <b>results</b> <b>2002</b> <b>HK\$'000</b>	<b>Total assets</b> <b>2002</b> <b>HK\$'000</b>	<b>Capital</b> <b>expenditure</b> <b>2002</b> <b>HK\$'000</b>
Hong Kong	210,968	(39,512)	759,491	16,793
The PRC	1,253,330	51,207	328,992	15,350
Korea	–	–	–	–
Others	15,920	3,052	–	–
	<u>1,480,218</u>	<u>14,747</u>	<u>1,088,483</u>	<u>32,143</u>
Amortisation of goodwill		(8,289)		
Gain/(loss) on disposal of subsidiaries		(66,431)		
Loss on disposal of long-term investments		(33,921)		
Impairment losses of leasehold land, land use rights and buildings		(103,270)		
Interest income		1,609		
Unallocated costs		(15,602)		
Finance costs		<u>(7,224)</u>		
Loss before taxation		<u>(218,381)</u>		

3. DISCONTINUING OPERATION

During the year, 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 have 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. The results, cash flows and net assets of these discontinuing business segments are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover	169,015	574,414
Other revenues	1,604	1,099
Operating costs	(178,889)	(647,914)
Loss on disposal of subsidiaries	-	(66,431)
Loss on disposal of long-term investments	-	(33,921)
Impairment losses on leasehold land, land use rights and buildings	-	(103,270)
Operating loss before finance costs	(8,270)	(276,023)
Finance costs	(1,600)	(6,687)
Loss before taxation	(9,870)	(282,710)
Taxation charge	-	(22)
Loss after taxation	(9,870)	(282,732)
Net operating cash outflow	(2,956)	(122,167)
Net investing cash (outflow)/inflow	(2,546)	60,534
Net financing cash inflow	426	9,335
Total net cash outflow	(5,076)	(52,298)
	At 30th April 2003 HK\$'000	At 30th April 2002 HK\$'000
Total assets	75,461	328,992
Total liabilities	(122,590)	(150,398)
Net (liabilities)/assets	(47,129)	178,594
Net liabilities disposed of	28,337	
Proceeds from sale	2,000	
Gain on disposal of subsidiaries	30,337	

## Notes to the Accounts *(continued)*

### 4. OPERATING LOSS BEFORE FINANCE COSTS

Operating loss before finance costs is stated after crediting and charging the following:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Crediting		
Gain on disposal of fixed assets	<b>475</b>	–
Net exchange gains	–	363
	<hr/>	<hr/>
Charging		
Cost of inventories sold	<b>2,592,409</b>	1,190,756
Auditors' remuneration	<b>770</b>	1,253
Depreciation:		
Owned fixed assets	<b>9,656</b>	24,925
Leased fixed assets	–	520
Staff cost (including directors' emoluments) (note 9)	<b>50,085</b>	153,338
Operating lease rentals for land and buildings	<b>4,331</b>	19,691
Amortisation of goodwill	<b>28,109</b>	8,289
Provision for doubtful debts	–	15,138
Net exchange losses	<b>2,907</b>	–
Loss on disposal of fixed assets	–	3,712
	<hr/>	<hr/>

### 5. FINANCE COSTS

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	<b>5,620</b>	5,236
Interest element of finance leases	–	151
Bank charges and other borrowing costs	–	1,837
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	<b>5,620</b>	7,224
	<hr/>	<hr/>

**6. TAXATION CREDIT/(CHARGE)**

Hong Kong profits tax has been provided at the rate of 16% (2002: 16%) on the estimated assessable profit for the year. No provision for PRC income tax is made as the PRC subsidiaries of the Company have no assessable profit for the year (2002: Nil).

The amount of taxation credited/(charged) to the consolidated profit and loss account represents:

	<b>2003</b> <b>HK\$'000</b>	2002 <b>HK\$'000</b>
Hong Kong profits tax credit/(charge)		
Current year	<b>(30)</b>	(12,042)
Over/(under) provision in previous years	<b>4,520</b>	(22)
	<b>4,490</b>	(12,064)
Share of taxation attributable to an associated company	<b>(2,659)</b>	–
	<b>1,831</b>	(12,064)

There was no material unprovided deferred taxation for the year.

**7. LOSS ATTRIBUTABLE TO SHAREHOLDERS**

Included in the Group's loss attributable to shareholders is a profit of HK\$2,657,000 (2002: loss of HK\$213,683,000) which has been dealt with in the accounts of the Company.

**8. LOSS PER SHARE**

The calculation of the basic loss per share is based on the Group's loss attributable to shareholders of HK\$11,089,000 (2002: HK\$254,633,000) and the weighted average of 101,911,203 (2002: 90,457,834) ordinary shares in issue during the year.

The weighted average number of shares outstanding for the year ended 30th April 2002 has been adjusted in light of the Capital Restructuring as referred to in note 21(a).

No diluted loss per share has been presented for the year ended 30th April 2003 as the exercise of share options and convertible notes would be anti-dilutive.

## Notes to the Accounts *(continued)*

### 9. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2003 HK\$'000	2002 HK\$'000
Wages and salaries	49,162	151,068
Unutilised annual leave	188	–
Pension costs – defined contribution plans	735	2,270
	<u>50,085</u>	<u>153,338</u>

### 10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

#### (a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Fees		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	–	–
For management		
Salaries, allowances and benefits in kind	6,111	9,017
Retirement benefits contributions	86	210
	<u>6,197</u>	<u>9,227</u>

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2003	2002
Nil – HK\$1,000,000	5	13
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	1	2
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$4,000,001 – HK\$4,500,000	–	1
	<u>          </u>	<u>          </u>

During the year, no option (2002: 1,000,000 share options, adjusted in light of the Capital Restructuring) was granted to the directors under the Group's Old Option Schemes.

**10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS** *(continued)*

**(a) Directors' emoluments** *(continued)*

No directors' fees was paid to independent non-executive directors in respect of years ended 30th April 2003 and 2002.

No director has waived emoluments in respect of the years ended 30th April 2003 and 2002.

**(b) Five highest paid individuals**

Three individuals (2002: Three) whose emoluments were the highest in the Group for the year were also directors and their emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two individuals are as follows:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Salaries, allowances and benefits in kind	<b>2,450</b>	3,376
Retirement benefits contributions	<b>26</b>	48
Bonuses	<b>76</b>	–
	<b><u>2,552</u></b>	<u>3,424</u>

The emoluments fell within the following bands:

<b>Emolument bands</b>	<b>Number of individuals</b>	
	<b>2003</b>	2002
Nil – HK\$500,000	–	–
HK\$500,001 – HK\$1,000,000	<b>1</b>	–
HK\$1,000,001 – HK\$1,500,000	–	–
HK\$1,500,001 – HK\$2,000,000	<b>1</b>	2
	<b><u>1</u></b>	<u>2</u>



## Notes to the Accounts *(continued)*

### 11. GOODWILL

	HK\$'000
Cost	
At 1st May 2002	251,866
Purchase of subsidiaries and an associated company <i>(note 25(d))</i>	58,448
Disposal of subsidiaries	(517)
	<hr/>
<b>At 30th April 2003</b>	<b>309,797</b>
	<hr style="border-top: 1px dashed black;"/>
Accumulated amortisation	
At 1st May 2002	8,289
Charge for the year	28,109
Disposal of subsidiaries	(52)
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<b>At 30th April 2003</b>	<b>36,346</b>
	<hr style="border-top: 1px dashed black;"/>
Net book value	
<b>At 30th April 2003</b>	<b>273,451</b>
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At 30th April 2002	243,577
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## Notes to the Accounts (continued)

### 12. FIXED ASSETS

	Leasehold land, land use rights and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles and motor launch HK\$'000	Total HK\$'000
<b>Cost</b>						
At 1st May 2002	238,188	1,050	80,919	61,011	2,914	384,082
Additions	544	258	1,205	1,033	1,410	4,450
Disposals	–	–	(2,054)	(87)	–	(2,141)
Disposals of subsidiaries	(224,752)	(695)	(80,070)	(60,862)	(3,773)	(370,152)
<b>At 30th April 2003</b>	<b>13,980</b>	<b>613</b>	<b>–</b>	<b>1,095</b>	<b>551</b>	<b>16,239</b>
<b>Accumulated depreciation and impairment losses</b>						
At 1st May 2002	118,540	369	48,829	46,627	2,727	217,092
Charge for the year	2,337	231	4,766	2,199	123	9,656
Disposals	–	–	(2,052)	(47)	–	(2,099)
Disposals of subsidiaries	(120,588)	(265)	(51,543)	(48,461)	(2,825)	(223,682)
<b>At 30th April 2003</b>	<b>289</b>	<b>335</b>	<b>–</b>	<b>318</b>	<b>25</b>	<b>967</b>
<b>Net book value</b>						
<b>At 30th April 2003</b>	<b>13,691</b>	<b>278</b>	<b>–</b>	<b>777</b>	<b>526</b>	<b>15,272</b>
At 30th April 2002	119,648	681	32,090	14,384	187	166,990

- (a) The Group's interests in leasehold land, land use rights and buildings at their net book values are analysed as follows:

	2003 HK\$'000	2002 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	13,691	13,971
In the PRC, held on:		
Leases of between 10 to 50 years	–	105,677
	<b>13,691</b>	<b>119,648</b>

## Notes to the Accounts *(continued)*

### 13. INTEREST IN AN ASSOCIATED COMPANY

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<b>35,048</b>	–
Amount due from associated company	<b>632</b>	–
	<b>35,680</b>	–

The amount due from associated company is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the Group's associated company at 30th April 2003 are set out below:

<b>Name</b>	<b>Place of incorporation and operation</b>	<b>Principal activities</b>	<b>Particulars of issued share capital</b>	<b>Interest held indirectly</b>
Ezze Mobile Tech., Inc.	Korea	Manufacturing of communication equipment and providing communication solutions	5,180,000 Ordinary share of Korean Won 500 each	33.98%

### 14. NOTES RECEIVABLE

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Notes receivable	<b>12,411</b>	–

The notes receivable were purchased for securing certain letter of credit facilities granted to the Group. It is unsecured, interest bearing at 5.95% to 6.10% per annum and will be due in 2005.

### 15. INVESTMENTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>88,000</b>	–*
Amounts due from subsidiaries	<b>430,444</b>	542,827
Amounts due to subsidiaries	<b>(41,246)</b>	(38,763)
	<b>477,198</b>	504,064

\* The investment cost in unlisted shares amounted to HK\$77 as at 30th April 2002.

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

15. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries at 30th April 2003 are set out in the table below. The table includes subsidiaries which, in the opinion of the directors, materially affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name	Place of incorporation and operation	Principal activities	Particulars of issued share capital	Interest held	
				Direct	Indirect
Ezcom Management Services Limited	Hong Kong	Provision of administrative services to group companies	2 Ordinary shares of HK\$1 each	-	100%
Ezcom Electronics Limited	Hong Kong	Trading of mobile phones and spare parts	10,000 Ordinary shares of HK\$1 each	-	100%
Ezcom Technology Limited	Hong Kong	Trading of mobile phones and spare parts	1,000,000 Ordinary shares of HK\$1 each	-	90%

16. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Finished goods	128,428	87,792
Raw materials	-	38,585
Work in progress	-	3,087
	<b>128,428</b>	<b>129,464</b>

As at 30th April 2003, no inventories were stated at net realisable value (2002: Nil).

17. 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 30th April 2003, based on the credit period allowed to its trade customers, is analysed as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current – 60 days	149,125	116,418
61 – 120 days	23,786	49,009
121 – 180 days	-	4,467
181 days and over	21	9,906
	<b>172,932</b>	<b>179,800</b>

18. DUE FROM/(TO) DIRECTORS AND RELATED COMPANIES

	Note	Group		Company	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Due from related companies	(a)	322,988	178,804	2,664	-
Due to directors	(b)	(100)	-	-	-
Due to a related company	(c)	(68)	(1,553)	-	-
Non-current amounts due to directors	(d)	(6,574)	-	-	-

(a) The amounts due from related companies included an amount of HK\$320,324,000 (2002: HK\$178,804,000) which represent the trade receivable from China Kejian Corporation Limited ("China Kejian") and an other receivable from 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 day credit term for the trade receivable and no fixed terms of repayment for the other receivable. The remaining balance of HK\$2,664,000 (2002: Nil) represents a loan receivable from Lamex China Limited, a company acquired by Mr. Kok from the Group pursuant to the agreement dated 19th 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 of the loan principal and accrued interest outstanding during the period amounted to HK\$127,023,000.

(b) The amounts due to directors represent other payables to Mr. Kok and Mr. Li Tung Wai ("Mr. Li"). The amounts are unsecured, interest-free and have no fixed terms of repayment.

(c) As at 30th April 2003, the amount due to a related company represents other payable to China Kejian. The amount is unsecured, interest-free and has a 90 day credit term.

As at 30th April 2002, the amount due to a related company represented trade payable to Ezze Mobile Tech., Inc., a company in which Mr. Kok and Mr. Lam Bing Sum held an indirect 40% and a direct 8% equity interest respectively at that time. The amount was unsecured, interest-free and had a 90 day credit term.

(d) The non-current amounts due to directors represent other payables to Mr. Kok and Mr. Li. The amounts are unsecured, interest-free and are not repayable within 12 months.

## Notes to the Accounts *(continued)*

### 19. BANK BALANCES AND CASH

As at 30th April 2003, bank balances and cash of HK\$435,000 (2002: HK\$33,463,000) of the Group were denominated in Renminbi and deposited with banks in the PRC. The conversion of these Renminbi denominated balances into other currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

### 20. TRADE AND BILLS PAYABLES

The ageing of the Group's trade and bills payables as at 30th April 2003, based on the credit period allowed by suppliers, is analysed as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current – 60 days	572,129	227,698
61 – 120 days	–	60,692
121 – 180 days	–	3,655
181 days and over	141	2,263
	<b>572,270</b>	<b>294,308</b>

### 21. SHARE CAPITAL AND OPTIONS

#### (a) Share capital

	Authorized			
	Ordinary shares of HK\$0.01 each		Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000	No. of shares	HK\$'000
At 1st May 2001	–	–	5,000,000,000	500,000
Increase in authorised ordinary share capital	–	–	3,000,000,000	300,000
At 30th April 2002	–	–	8,000,000,000	800,000
At 1st May 2002	–	–	8,000,000,000	800,000
Capital Restructuring <i>(note (iii))</i>	80,000,000,000	800,000	(8,000,000,000)	(800,000)
At 30th April 2003	80,000,000,000	800,000	–	–

21. SHARE CAPITAL AND OPTIONS (continued)

(a) Share capital (continued)

	Issued and fully paid			
	Ordinary shares of HK\$0.01 each		Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000	No. of shares	HK\$'000
At 1st May 2001	-	-	3,831,560,175	383,156
Issue of shares	-	-	1,216,000,000	121,600
Exercise of share options	-	-	48,000,000	4,800
At 30th April 2002	-	-	5,095,560,175	509,556
At 1st May 2002	-	-	5,095,560,175	509,556
Capital Restructuring (note (i)&(ii))	101,911,203	1,019	(5,095,560,175)	(509,556)
<b>At 30th April 2003</b>	<b>101,911,203</b>	<b>1,019</b>	<b>-</b>	<b>-</b>

Note:

By a special resolution passed on 17th April 2003, a capital restructuring was undertaken on 18th 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 (the "Share Consolidation");
- (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; and
- (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.

(b) Share options

Pursuant to the Old Option Schemes of the Company, as at 1st 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 resignation of a director with effect from 14th November 2002, 82,500,000 share options were lapsed. No share options were exercised or granted during the year.

21. SHARE CAPITAL AND OPTIONS (continued)

(b) Share options (continued)

As a result of the Capital Restructuring as referred to in note 21(a), as at 18th April 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 3,144,480 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 in the directors' report, the share options are exercisable during the period from 13th July 1996 to 2nd July 2007.

The Old Option Schemes were terminated by the Company on 13th 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.

A new share option scheme (the "New Option Scheme") was adopted by the Company on 13th March 2002. No options was granted under the New Option Scheme as at 30th April 2003.

22. RESERVES OF THE COMPANY, UNCONSOLIDATED

Company	Share premium HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Total HK\$'000
At 1st May 2001	112,473	233	112,706
Premium on issue of shares	264	–	264
Loss for the year	–	(213,683)	(213,683)
At 30th April 2002	<u>112,737</u>	<u>(213,450)</u>	<u>(100,713)</u>
At 1st May 2002	112,737	(213,450)	(100,713)
Capital Restructuring (note 21(a))	508,537	–	508,537
Profit for the year	–	2,657	2,657
<b>At 30th April 2003</b>	<b><u>621,274</u></b>	<b><u>(210,793)</u></b>	<b><u>410,481</u></b>



**23. INTEREST-BEARING BORROWINGS**

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Bank borrowings:		
Trust receipt loans – secured	<b>100,014</b>	41,808
Bank loans – secured	<b>16,068</b>	62,780
	<b>116,082</b>	104,588
Current portion of interest-bearing borrowings	<b>(111,848)</b>	(97,262)
Non-current portion of interest-bearing borrowings	<b>4,234</b>	7,326
The analysis of the above is as follows:		
Bank borrowings		
Wholly repayable within five years	<b>116,082</b>	104,588

As at 30th April 2003, the Group's trust receipt loans and bank loans were repayable as follows:

	<b>Trust receipt loans and bank loans</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>111,848</b>	97,262
In the second year	–	7,326
In the third to fifth year	<b>4,234</b>	–
	<b>116,082</b>	104,588

24. CONVERTIBLE NOTES

		Group and Company	
		2003	2002
		HK\$'000	HK\$'000
	Note		
At the beginning of the year		158,305	–
New issues for acquisition of subsidiaries	(a)	88,000	158,305
Set-off with amount due from a related company	(b)	(123,058)	–
Redemption	(c)	(51,000)	–
At the end of the year		<u>72,247</u>	<u>158,305</u>

Note:

- (a) On 28th March 2002, 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, the Chairman and a shareholder of the Company, and Mr. Li, a director of Ezcom Technology Limited, respectively. The convertible notes are unsecured, interest-free and repayable on or before 27th March 2004.

On 8th 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 7th November 2004.

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\$5.0 each per share (after adjustment in light of the Capital Restructuring as referred to in note 21(a)), 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 on or after the date of the conversion.

- (b) On 24th April 2003, the convertible notes held by Mr. Kok and Mr. Li were reduced by HK\$41,667,000 and HK\$81,391,000 respectively by way of an offset against with an amount due from Lamex China Limited, which was beneficially owned by Mr. Kok.
- (c) In January 2003, the Company has redeemed part of the outstanding convertible notes held by Mr. Kok in the total sum of HK\$51,000,000.

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash inflow generated from operations

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	<b>(13,332)</b>	(218,381)
Interest income	<b>(6,064)</b>	(1,609)
Interest expenses on bank loans and overdrafts	<b>5,620</b>	5,236
Interest element of finance leases	–	151
Bank charges and other borrowing costs	–	1,837
Depreciation of owned fixed assets	<b>9,656</b>	24,925
Depreciation of fixed assets held under finance leases	–	520
Amortisation of goodwill	<b>28,109</b>	8,289
(Gain)/loss on disposal of fixed assets	<b>(475)</b>	3,712
Impairment losses on leasehold land, land use rights and buildings	–	103,270
(Gain)/loss on disposal of subsidiaries	<b>(28,544)</b>	66,431
Share of profit of an associated company	<b>(343)</b>	–
Loss on disposal of long-term investments	–	33,921
(Increase)/decrease in inventories	<b>(76,441)</b>	47,249
(Increase)/decrease in trade receivables	<b>(42,405)</b>	134,916
Increase in due from related companies, prepayments, deposits and other receivables	<b>(164,057)</b>	(120,296)
Increase/(decrease) in due to a related company, trade and bills payables, accrued charges and other payables	<b>336,467</b>	(20,079)
Increase in amount due from an associated company	<b>(2,184)</b>	–
Increase/(decrease) in sales deposits received	<b>17,371</b>	(3,496)
Net cash inflow generated from operations	<b>63,378</b>	66,596

## Notes to the Accounts *(continued)*

### 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

#### (b) Analysis of changes in financing during the year

	Share capital including premium		Obligations under finance leases		Bank loans and trust receipt loans		Convertible notes		Minority interests	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At the beginning of the year	<b>622,293</b>	495,629	-	2,344	<b>104,588</b>	59,676	<b>158,305</b>	-	<b>17,105</b>	-
Cash inflow/(outflow) from financing	-	81,664	-	(454)	<b>65,026</b>	30,045	<b>(51,000)</b>	-	-	-
Non-cash transactions:										
(i) Minority interests' in share of profits	-	-	-	-	-	-	-	-	<b>(412)</b>	24,188
(ii) Redemption through an offset with an amount due from a related company <i>(note 24(b))</i>	-	-	-	-	-	-	<b>(123,058)</b>	-	-	-
Set up of a new subsidiary	-	-	-	-	-	-	-	-	<b>42</b>	-
Acquisition of subsidiaries <i>(note 25(d))</i>	-	45,000	-	-	-	31,771	<b>88,000</b>	158,305	-	(7,083)
Disposal of subsidiaries <i>(note 25(c))</i>	-	-	-	(1,890)	<b>(53,532)</b>	(16,904)	-	-	<b>(546)</b>	-
At the end of the year	<b>622,293</b>	622,293	-	-	<b>116,082</b>	104,588	<b>72,247</b>	158,305	<b>16,189</b>	17,105

## Notes to the Accounts *(continued)*

### 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

#### (c) Disposal of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net (liabilities)/assets disposed of		
Fixed assets	146,470	90,957
Inventories	77,477	22,305
Pledged bank deposits	–	6,000
Bank balances and cash	31,521	3,852
Other net current (liabilities)/assets	(228,108)	12,498
Interest-bearing borrowings	(53,532)	(18,794)
Goodwill	465	–
Minority interests	(546)	–
	<u>(26,253)</u>	<u>116,818</u>
Reserves and goodwill previously written off against retained earnings realised upon disposal of subsidiaries	<u>(91)</u>	<u>17,613</u>
Gain/(loss) on disposal	<u>(26,344)</u> <u>28,544</u>	<u>134,431</u> <u>(66,431)</u>
	<u>2,200</u>	<u>68,000</u>
To be satisfied/satisfied by		
Cash	<u>2,200</u>	<u>68,000</u>
Analysis of the net (outflow)/inflow of cash and cash equivalents in respect of the disposal of subsidiaries:		
Cash consideration received	–	68,000
Bank balances and cash disposed of	(31,521)	(3,852)
	<u>(31,521)</u>	<u>64,148</u>

## Notes to the Accounts *(continued)*

### 25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

#### (d) Acquisition of subsidiaries and an associated company

	2003 HK\$'000	2002 HK\$'000
Net assets acquired		
Fixed assets	–	872
Interest in an associated company	<b>37,365</b>	–
Inventories	–	63,814
Pledged bank deposits	–	29,100
Bank balances and cash	<b>896</b>	28,950
Other net current (liabilities)/assets	<b>(35)</b>	8,391
Amounts due to directors	<b>(8,674)</b>	–
Interest-bearing borrowings	–	(31,771)
Minority interests	–	7,083
	<b>29,552</b>	106,439
Goodwill	<b>58,448</b>	251,866
	<b>88,000</b>	358,305
Satisfied by		
Allotment of shares	–	45,000
Cash	–	155,000
Convertible notes <i>(note 24(a))</i>	<b>88,000</b>	158,305
	<b>88,000</b>	358,305
Analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries and an associated company:		
Cash consideration	–	(155,000)
Bank balances and cash acquired	<b>896</b>	28,950
	<b>896</b>	(126,050)

26. CONTINGENT LIABILITIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bills of exchange discounted with recourse	88,718	30,407	-	-
Guarantees for bank loans and overdrafts of certain subsidiaries	-	-	73,200	-
Guarantees for bank loans and overdrafts of certain independent third parties	-	2,555	-	2,555
	<u>-</u>	<u>2,555</u>	<u>-</u>	<u>2,555</u>

27. COMMITMENTS

(a) Capital commitments

As at 30th April 2003, the Group had capital commitments for fixed assets as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Contracted but not provided for	-	-
Authorised by the directors but not contracted for	-	121
	<u>-</u>	<u>121</u>

The Company had no capital commitments as at 30th April 2003 (2002: Nil).

(b) Commitments under operating leases

As at 30th April 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Not later than one year	731	6,955
Later than one year and not later than five years	550	5,887
Later than five years	-	1,691
	<u>1,281</u>	<u>14,533</u>

The Company had no commitments under non-cancellable operating leases as at 30th April 2003 (2002: Nil).

27. COMMITMENTS (continued)

(c) Foreign exchange contracts commitments

As at 30th April 2003, the notional amount of the Group's outstanding foreign exchange contracts is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Foreign exchange contracts	<u>5,635</u>	<u>–</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 currency fluctuation to the Group during the normal course of business is protected.

(d) Other commitments

As at 30th April 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\$18,950,000 with China Kejian as referred to in note 28(e) (2002: Nil).

28. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	Note	2003 HK\$'000	2002 HK\$'000
Acquisition of subsidiaries from Mr. Kok and/or Mr. Li	(a)	<u>88,000</u>	<u>358,305</u>
Disposal of subsidiaries to Mr. Kok	(b)	<u>2,000</u>	<u>–</u>
Sales to China Kejian and its related companies	(c)	<u>1,534,180</u>	<u>481,196</u>
Purchases from China Kejian	(c)	<u>2,340</u>	<u>–</u>
Service income from China Kejian	(c)	<u>–</u>	<u>18,121</u>
Purchases from Ezze Mobile Tech., Inc.	(d)	<u>416,115</u>	<u>145,864</u>
Advertising and promotion expenses paid under the joint sponsorship agreement with China Kejian	(c), (e)	<u>15,290</u>	<u>–</u>



**28. RELATED PARTY TRANSACTIONS** *(continued)*

**(a) Acquisition of subsidiaries**

- (i) On 14th November 2001, the Company acquired a 73% equity interest in Select Right Development Limited, a company holding 70% equity interest in Ezcom Technology Limited, from Mr. Kok, the Chairman and a substantial shareholder of the Company, for a total consideration of HK\$200,000,000 by way of payments of cash of HK\$155,000,000 and an allotment of 450,000,000 new shares of HK\$0.10 each of the Company.
  
- (ii) On 28th March 2002, the Company further acquired a 27% equity interest in Select Right Development Limited from Mr. Kok for a total consideration of approximately HK\$76,914,000 by the issue of a convertible note with an aggregate equivalent amount.

The convertible note is unsecured, interest-free and repayable on or before 27th March 2004. The noteholder has the right to convert any part of the principal amount of the convertible note into ordinary issued shares of HK\$0.01 each of the Company at the price of HK\$5.0 each per share (after adjustment in light of the Capital Restructuring as referred to in note 21(a)), subject to adjustment, at any time on or before the expiry date of the note.

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 on or after the date of the conversion.

- (iii) On 28th March 2002, the Company acquired two-thirds of the issued share capital of Future Circle Holdings Limited, a company holding 30% equity interest in Ezcom Technology Limited, from Mr. Li, a director of Ezcom Technology Limited, for a consideration of approximately HK\$81,391,000 by the issue of a convertible note with an aggregate equivalent amount.

The convertible note is unsecured, interest-free and repayable on or before 27th March 2004. The noteholder has the right to convert any part of the principal amount of the convertible note into ordinary issued shares of HK\$0.01 each of the Company at the price of HK\$5.0 each per share (after adjustment in light of the Capital Restructuring as referred to in note 21(a)), subject to adjustment, at any time on or before the expiry date of the note.

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 on or after the date of the conversion.

### 28. RELATED PARTY TRANSACTIONS *(continued)*

#### (a) Acquisition of subsidiaries *(continued)*

- (iv) On 28th March 2002, the Company was granted an option (the "Option") by Mr. Li to purchase the remaining one-third of the issued share capital of Future Circle Holdings Limited. The exercise price for the Option is approximately HK\$40,695,000. The price shall be paid and satisfied by the issue of a convertible note of the same amount to Mr. Li. The terms of the convertible note shall be the same as the convertible notes granted to Mr. Kok and Mr. Li as mentioned above.
  - (v) On 8th November 2002, the Company acquired a 100% equity interest in Global Direction Limited, a company holding 33.98% equity interest in Ezze Mobile Tech., Inc. from Mr. Kok, for a total consideration of HK\$88,000,000 by the issue of a convertible note with an aggregate equivalent amount.
- (b) Pursuant to the agreement dated 19th 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.
- (c) 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.
- (d) As at 7th 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 8th November 2002, Ezze Mobile Tech., Inc. became an associated company of the Group.
- (e) Pursuant to the agreement dated 1st 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.

### 29. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 30th April 2003, the Group has available banking facilities (including bank loans) totalling HK\$716,346,000 (2002: HK\$273,840,000) of which HK\$580,721,000 (2002: HK\$96,345,000) were utilised.

The above banking facilities are secured by the following:

- (a) first legal charges on certain of the Group's leasehold land and buildings with an aggregate carrying value of HK\$13,691,000 at 30th April 2003 (2002: HK\$60,475,000);
- (b) floating charge over certain assets of a Group's subsidiary totalling HK\$463,474,000 at 30th April 2003 (2002: Nil);
- (c) certain bank deposits of the Group's subsidiaries totalling HK\$74,515,000 at 30th April 2003 (2002: HK\$50,867,000);
- (d) corporate guarantees issued by the Company; and
- (e) personal guarantees issued by Mr. Kok and Mr. Li.

### 30. SUBSEQUENT EVENTS

- (a) On 29th 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 7th May 2003, the issued share capital of the Company is increased from 101,911,203 to 611,467,218 ordinary shares of HK\$0.01 each. Of the 509,556,015 shares offered, 287,544,153 shares have been subscribed by All About Investments Limited, a company beneficially owned by Mr. Kok, pursuant to the terms of an underwriting agreement between the Company and All About Investments Limited dated 29th January 2003.
- (b) As mentioned in detail under note 28(a)(iv), the Company has been granted the Option to acquire from Mr. Li his remaining one share in Future Circle Holdings Limited which has 30% equity interest in Ezcom Technology Limited. The Company exercised the Option on 21st May 2003. The completion of the exercise is conditional upon the passing of ordinary resolution by the independent shareholders in a special general meeting after the year end. Upon the completion of the exercise, the Company's aggregate indirect interests in Ezcom Technology Limited will increase from 90% to 100%.
- (c) Subsequent to the year end, the outstanding convertible notes in the aggregate sum of HK\$72,247,000 held by Mr. Kok have been fully redeemed by the Company.
- (d) Pursuant to a deed of release (the "Deed") dated 25th July 2003, the floating charge over certain assets of a Group's subsidiary as referred to in note 29(b) was released with effect from the date of the Deed.

### 31. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 26th August 2003.