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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Ezcom Holdings Limited, you should at once hand this circular and the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is not an offer of securities nor is it calculated to invite offers for securities.

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EZCOM
BRING TECHNOLOGY TO LIFE
EZCOM HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

**PROPOSED CAPITAL RESTRUCTURING
INVOLVING CONSOLIDATION OF SHARES, REDUCTION OF
THE ISSUED SHARE CAPITAL
AND SUBDIVISION OF UNISSUED SHARE CAPITAL**

**PROPOSED OPEN OFFER TO QUALIFYING SHAREHOLDERS ON THE BASIS
OF ASSURED ALLOTMENTS OF FIVE OFFER SHARES
FOR EVERY ADJUSTED SHARE HELD
PAYABLE IN FULL ON APPLICATION**

**GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES
SPECIAL DEAL**

APPLICATION FOR WHITEWASH WAIVER

Financial advisers to the Underwriter



**Independent Financial Adviser to the Independent Board Committee of
Ezcom Holdings Limited**

**第一亞洲
FIRST ASIA
First Asia Finance Group Limited**

A letter of advice from First Asia Finance Group Limited to the Independent Board Committee (as defined herein) is set out on pages 28 to 62 of this circular.

It should be noted that the Underwriting Agreement (as defined herein) contains certain provisions granting the Underwriter (as defined herein) the right to terminate the Underwriting Agreement by notice in writing given by the Underwriter at any time on or before 4:00 p.m. on the second Business Day following the last day for application and payment for the Offer Shares, if there occurs any force majeure events (as set out in the section headed "Termination of the Underwriting Agreement" on page 15 of this circular). If the Underwriter exercises such right, the obligations of the Underwriter under the Underwriting Agreement will cease and the Open Offer will not proceed.

A notice convening the SGM of Ezcom Holdings Limited to be held at Aberdeen Room, Level 3, JW Marriot Hotel, Pacific Place, 88 Queenway, Hong Kong on 17 April 2003 at 3:30 p.m. is set out on pages 114 to 118 of this circular. If they are not able to attend the meeting, shareholders are asked to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the branch share registrar of Ezcom Holdings Limited in Hong Kong, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong and in any event by no later than 48 hours before the time appointed for the holding of the meeting. Completion of a form of proxy will not preclude shareholders from attending and voting at the meeting or any adjournment thereof should they so wish.

25 March 2003

CONTENTS

| | <i>Page</i> |
|---|-------------|
| Expected Timetable | ii |
| Definitions | 1 |
| Letter from the Board | |
| Introduction | 6 |
| Capital Restructuring | 8 |
| The Open Offer | 11 |
| Business review and future plans of the Group | 16 |
| Reasons for the Open Offer and use of proceeds | 17 |
| Changes in the shareholding structure of the Company | 19 |
| Listing and dealings | 21 |
| Permission of the Bermuda Monetary Authority | 22 |
| Adjustment in relation to the exercise/conversion price of Options and Convertible Notes | 22 |
| Public float | 23 |
| General Mandate and Repurchase Mandate | 24 |
| SGM | 24 |
| Recommendations | 24 |
| Additional information | 25 |
| Letter from the Independent Board Committee | 26 |
| Letter of advice from the Independent Financial Adviser | 28 |
| Appendix I – Financial information regarding the Group | 63 |
| Appendix II – Explanatory statement | 103 |
| Appendix III – General information | 106 |
| Notice of special general meeting | 114 |

EXPECTED TIMETABLE

2003

April

| | |
|--|---------------|
| Latest time for return of proxy forms for SGM (not less than 48 hours) | 3:30 p.m., 15 |
| SGM | 3:30 p.m., 17 |
| Despatch of Offering Documents | 22 |
| Effective time of the Capital Restructuring | 9:30 a.m., 22 |
| Last day of dealings in Shares on a cum-entitlement basis | 22 |
| Free exchange of existing share certificates for new share certificates commences | 22 |
| Temporary counter for trading in Adjusted Shares in board lot of 40 Adjusted Shares (in the form of existing certificates) opens | 9:30 a.m., 22 |
| Existing counter for trading in Existing Shares in board lots of 2,000 closes | 9:30 a.m., 22 |
| Commencement of dealings in Shares on an ex-entitlement basis | 23 |
| Latest time for lodging transfers of Existing Shares in order to qualify for the Open Offer | 4:00 p.m., 24 |
| Record Date | 29 |
| Register of members closes (both dates inclusive) | 25 to 29 |
| Register of members re-opens | 30 |

May

| | |
|--|---------------|
| Existing counter for trading in Adjusted Shares in board lots of 2,000 Adjusted Shares re-opens | 9:30 a.m., 7 |
| Parallel trading in Adjusted Shares (in the form of new and existing certificates) commences | 9:30 a.m., 7 |
| Designated broker starts to stand in the market to provide matching service | 9:30 a.m., 7 |
| Latest time for payment and application in Open Offer | 4:00 p.m., 7 |
| Latest time for the Underwriter to terminate the Underwriting Agreement | 4:00 p.m., 12 |
| Announcement of results of the Open Offer | 13 |
| Despatch of refund cheques in respect of unsuccessful applications on or before | 14 |
| Despatch of certificates for Offer Shares on or before | 14 |
| Dealings in Offer Shares commence | 19 |
| Temporary counter for trading in Adjusted Shares in board lots of 40 Adjusted Shares (in the form of existing certificates) closes | 4:00 p.m., 29 |
| Designated broker ceases to stand in the market to provide matching service | 4:00 p.m., 29 |
| Parallel trading in Adjusted Shares (in the form of new and existing certificates) ends | 4:00 p.m., 29 |

June

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| Free exchange of existing share certificates for new share certificates ends | 3 |
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DEFINITIONS

In this circular the following terms are used with the meanings set opposite them:–

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| “Adjusted Share(s)” | the share(s) of HK\$0.01 each in the capital of the Company after the implementation of the Capital Restructuring |
| “Announcement” | the announcement of the Company dated 29 January 2003 |
| “Application Form” | the form of application for the Offer Shares to be despatched in the event the Open Offer proceeds |
| “associate(s)” | the meaning ascribed thereto in the Listing Rules |
| “BMA” | the Bermuda Monetary Authority |
| “Board” | the Board of Directors |
| “Business Day” | a day on which banks are generally open for business for more than five hours in Hong Kong |
| “Capital Reduction” | the proposed reduction in the nominal value of the issued shares in the Company from HK\$5.0 each to HK\$0.01 each by cancelling HK\$4.99 paid up on each issued Consolidated Share |
| “Capital Restructuring” | the Share Consolidation, Capital Reduction and Subdivision |
| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |
| “Company” | Ezcom Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange |
| “Consolidated Share(s)” | ordinary shares of HK\$5.0 each in the share capital of the Company that will be created upon the Share Consolidation becoming effective |
| “Controlling Shareholder” | Anglo Express Group Limited, a company incorporated in the British Virgin Islands with limited liability whose registered office is at P.O. Box 901, Road Town, Tortola, British Virgin Islands, beneficially wholly-owned by Mr. Kok, a controlling shareholder of the Company, with a direct interest in 1,699,092,000 Shares representing approximately 33.3% of the existing issued share capital of the Company |

DEFINITIONS

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| “Convertible Notes” | convertible notes issued by the Company with outstanding principal amounts as at the Latest Practicable Date of (i) HK\$76,914,110 owed to Mr. Kok (issued on 28 March 2002 and falls due on 27 March 2004) and (ii) HK\$81,390,593 owed to Mr. Li (issued on 28 March 2002 and falls due on 27 March 2004) and (iii) HK\$37,000,000 owed to Mr. Kok (issued on 8 November 2002 and falls due on 7 November 2004) which are convertible into an aggregate of 1,953,047,030 Shares at their respective prevailing conversion prices (subject to adjustment) representing approximately 38.3% and 6.4% of the existing issued share capital and expected enlarged issued share capital of the Company respectively |
| “Director(s)” | director(s) of the Company |
| “Executive” | the meaning attributed to that term in the Takeovers Code |
| “Existing Share(s)” | ordinary share(s) of HK\$0.10 each in the share capital of the Company before the Capital Restructuring |
| “General Mandate” | the proposed general mandate to be sought at the SGM to authorise the Directors to allot and issue new Shares in the manner set out in the notice of SGM |
| “Group” | the Company and its subsidiaries |
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China |
| “HKSCC” | Hong Kong Securities Clearing Company Limited |
| “Independent Board Committee” | the independent committee of the Board formed to advise the Independent Shareholders in respect of the Open Offer, the Special Deal and the Whitewash Waiver |
| “Independent Financial Adviser” | First Asia Finance Group Limited, registered as an investment adviser under the Securities Ordinance (Cap. 333 of the Laws of Hong Kong) and the independent financial adviser to the Independent Board Committee |
| “Independent Shareholders” | Shareholders other than those who are involved in or interested in the Whitewash Waiver and the proposed use of proceeds of the Open Offer (being the Controlling Shareholder and its associates and parties acting in concert with any of them) |
| “Last Trading Day” | 16 January 2003, being the last day on which trading in the Shares took place before the issue of the Announcement |

DEFINITIONS

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| “Latest Practicable Date” | 21 March 2003 being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Mr. Kok” | Mr. Kok Kin Hok, chairman of the Company, beneficially interested in approximately 33.3% of the existing issued share capital of the Company via the Controlling Shareholder and who beneficially wholly owns the Underwriter, who is also the holder of Options and Convertible Notes to subscribe for or convertible into 30,000,000 and 1,139,141,100 Shares respectively, and who has given an irrevocable undertaking not to exercise such Options and Convertible Notes on or before 31 May 2003 |
| “Mr. Lam” | Mr. Lam Bing Sum, a Director, who is not a Shareholder but is the holder of Options to subscribe for 20,000,000 Shares equivalent to approximately 0.4% of the existing issued share capital of the Company, who has given an irrevocable undertaking to the Company not to exercise his Options on or before 31 May 2003 |
| “Mr. Li” | Mr. Li Tung Wai, director of a subsidiary of the Company, who is not a Shareholder but is the holder of Options and Convertible Notes to subscribe for or convertible into 20,000,000 and 813,905,930 Shares equivalent to approximately 0.4% and 16% of the existing issued share capital of the Company respectively, who has given an irrevocable undertaking to the Company not to exercise his Options and Convertible Notes on or before 31 May 2003 |
| “Offer Shares” | not less than 509,556,015 Adjusted Shares to be issued under the Open Offer, representing approximately 83.3% of the expected enlarged issued share capital of the Company |
| “Offering Circular” | a circular making the Open Offer to be issued in connection with the Open Offer if it proceeds |
| “Offering Documents” | the Offering Circular and the Application Form |
| “Open Offer” | the proposed open offer of the Offer Shares at the Subscription Price |
| “Option(s)” | the share option(s) granted to the employee(s) of the Group under the employee share option schemes of the Company |
| “Overseas Shareholder(s)” | Shareholder(s) whose names appear on the register of members of the Company on the Record Date and whose addresses as shown on such register are outside Hong Kong |
| “PRC” | the People’s Republic of China |

DEFINITIONS

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| “Qualifying Shareholder(s)” | Shareholder(s), other than the Overseas Shareholders, whose names appear on the register of members of the Company at the close of business on the Record Date and whose addresses, as shown on the register of members of the Company, are in Hong Kong |
| “Record Date” | the expected date by reference to which entitlements to the Open Offer are to be determined, which is currently 29 April 2003 |
| “Repurchase Mandate” | the general mandate to be proposed at the SGM to authorise the Directors to repurchase Shares in the manner set out in the notice of SGM |
| “SDI Ordinance” | the Securities (Disclosure of Interests) Ordinance (Cap. 396 of the Laws of Hong Kong) |
| “SFC” | the Securities and Futures Commission of Hong Kong |
| “SGM” | the special general meeting of the Company to be held on 17 April 2003 at which, inter alia, resolutions will be proposed to consider and, if thought fit, approve the Capital Restructuring, the Special Deal, the Whitewash Waiver, the Open Offer, the General Mandate and the Repurchase Mandate, notice of which is set out herein |
| “Share(s)” | the existing share(s) of HK\$0.10 each in the capital of the Company |
| “Share Consolidation” | the consolidation of fifty issued Existing Shares into one Consolidated Share referred to herein |
| “Shareholder(s)” | the holder(s) of Existing Share(s) or, where the context requires, Consolidated Share(s) or Adjusted Share(s) |
| “Special Deal” | the proposed repayment of part of the Convertible Notes owned by Mr. Kok from the net proceeds of the Open Offer, which is subject to Independent Shareholders’ approval |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Subdivision” | the subdivision of each unissued Existing Share into ten Adjusted Shares referred to herein |
| “Subscription Price” | HK\$0.10 per Offer Share |
| “Takeovers Code” | the Hong Kong Code on Takeovers and Mergers |
| “Underwriter” | All About Investments Limited, a company incorporated in the British Virgin Islands with limited liability whose registered office is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands and which is beneficially wholly owned by Mr. Kok, who is also its sole director |

DEFINITIONS

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| “Underwriting Agreement” | the underwriting agreement dated 29 January 2003 entered into between the Company and the Underwriter in relation to the underwriting and other arrangements in respect of the Open Offer |
| “Whitewash Waiver” | the waiver under Note 1 to the Dispensations from Rule 26 of the Takeovers Code in respect of the obligation to make a general offer for the issued Adjusted Shares and outstanding Options and Convertible Notes to subscribe Shares which might otherwise arise on the Controlling Shareholder and any parties deemed to be acting in concert with it (including the Underwriter) as a result of the Open Offer, which waiver is conditional on approval of the Independent Shareholders |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “%” | per cent. |

LETTER FROM THE BOARD

EZCOM
BRING TECHNOLOGY TO LIFE
EZCOM HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

Executive Directors:

Kok Kin Hok (*Chairman*)
Lam Bing Sum
Lian Song Qing

Non-Executive Director:

Hou Ziqiang

Independent Non-Executive Directors:

Dr. Yang Shiqin
Dr. Li Jianhua
Wang Shunian

Registered Office:

Clarendon House
2 Church Street
Hamilton, HM 11
Bermuda

Principal Place of Business:

Unit 1C & 1D, 14th Floor
Tower 2, Admiralty Centre
18 Harcourt Road
Hong Kong

25 March 2003

*To the Shareholders and, for information only,
holders of the Options and the Convertible Notes*

Dear Sir/Madam,

**PROPOSED CAPITAL RESTRUCTURING
INVOLVING CONSOLIDATION OF SHARES, REDUCTION OF
THE ISSUED SHARE CAPITAL
AND SUBDIVISION OF UNISSUED SHARE CAPITAL**

**PROPOSED OPEN OFFER TO QUALIFYING SHAREHOLDERS ON THE BASIS
OF ASSURED ALLOTMENTS OF FIVE OFFER SHARES
FOR EVERY ADJUSTED SHARE HELD
PAYABLE IN FULL ON APPLICATION**

GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

SPECIAL DEAL

APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

On 29 January 2003, the Company announced the following proposals:

- (a) that every fifty issued Existing Shares be consolidated into one Consolidated Share;
- (b) that the nominal value of each issued Consolidated Share be reduced from HK\$5.0 each to HK\$0.01 each by cancelling HK\$4.99 paid up on each issued Consolidated Share; and

LETTER FROM THE BOARD

(c) that each of the authorised unissued Shares be subdivided into 10 Adjusted Shares.

It also announced a proposal to raise upon the Capital Restructuring becoming effective, approximately HK\$51 million before expenses (assuming no exercise of Options or Convertible Notes on or before the Record Date) or approximately HK\$53 million before expenses (assuming all the Options are exercised on or before the Record Date except those held by Mr. Kok, Mr. Lam and Mr. Li) by way of an open offer of not less than 509,556,015 Offer Shares at the Subscription Price on the basis of an assured allotment of five Offer Shares for every Adjusted Share held by the Qualifying Shareholders.

As at the Latest Practicable Date, Mr. Kok and his concert parties (including the Underwriter) were interested in a total of 1,699,092,000 Shares, representing approximately 33.3% of the issued share capital of the Company.

Immediately upon completion of the Open Offer, Mr. Kok and his concert parties (which include the Underwriter, which is wholly-owned by Mr. Kok) will be interested in between 203,891,040 Adjusted Shares representing approximately 33.3% (if all Qualifying Shareholders take up their assured allotments of Open Offer Shares in which case no general offer obligation will arise) and 543,557,855 Adjusted Shares representing approximately 88.9% (if no Open Offer Shares are taken up by anyone other than the Underwriter and its concert parties in which case a general offer obligation will arise) of the enlarged issued share capital of the Company (depending on the level of applications in the Open Offer by the Shareholders and assuming no outstanding Options or Convertible Notes are exercised before the Record Date). Accordingly, if as a result of its taking up the Offer Shares under the Underwriting Agreement, the Underwriter and its concert parties acquire Shares which increases their aggregate holding of voting rights to 35% or more, the Underwriter and parties acting in concert with it will, in the absence of the Whitewash Waiver, be required under Rule 26 of the Takeovers Code to make a general offer for the Shares, Convertible Notes and Options other than those held by the Underwriter and parties acting in concert with it. The Underwriter has applied to the Executive under Note 1 to Dispensations from Rule 26 of the Takeovers Code for the Whitewash Waiver and the Executive has indicated that it will grant the waiver subject to the approval of the Independent Shareholders at the SGM voting by way of a poll.

These proposals require approval of Independent Shareholders at the SGM, and that those Shareholders be advised by independent directors with no potential conflicts of interest. All Directors other than Messrs. Yang Shiqin, Li Jianhua and Wang Shunian are considered not to be sufficiently independent for this purpose and accordingly they alone have been appointed as members of the Independent Board Committee for this purpose.

Mr. Kok is an executive Director and the chairman of the Company and beneficially wholly owns the Controlling Shareholder and the Underwriter. As at the Latest Practicable Date, Mr. Kok was also the holder of Options and Convertible Notes to subscribe for or convert into 30,000,000 and 1,139,141,000 Shares respectively. For these reasons, Mr. Kok is considered not independent to become a member of the Independent Board Committee.

Mr. Lam is an executive Director. As at the Latest Practicable Date, Mr. Lam was a holder of Options to subscribe for 20,000,000 Shares and an employee of the Group. Due to his employment with the Company, Mr. Lam is considered not sufficiently independent to be a member of the Independent Board Committee.

LETTER FROM THE BOARD

Mr. Lian Song Qing is an executive Director. As at the Latest Practicable Date, Mr. Lian Song Qing was interested in 20,000,000 Shares. As Mr. Lian Song Qing is an employee of the Company, Mr. Lian Song Qing is considered not sufficiently independent to be a member of the Independent Board Committee.

Mr. Hou Ziqiang is a non-executive Director and the chairman of China Kejian Corporation Limited, which is a customer of the Company. Mr. Kok is the managing director of China Kejian Corporation Limited and both Mr. Hou Ziqiang and Mr. Kok have significant control over the day to day operations of this company. By virtue of the financial and business relationship between China Kejian Corporation Limited and the Company, Mr. Hou Ziqiang is considered not sufficiently independent to become a member of the Independent Board Committee.

Messrs. Yang Shiqin, Li Jianhua and Wang Shunian, independent non-executive Directors, are not employees or agents of or consultants or advisers to, and did not have any financial or other connections with, the Company (save for their fees as independent non-executive directors of the Company) or any of its controlling or substantial shareholders, or with any of their respective concert parties. As at the Latest Practicable Date, Messrs. Yang Shiqin, Li Jianhua and Wang Shunian did not directly or indirectly hold any shares, options or other rights to acquire shares in the Company or in any company controlled by, or in, any substantial shareholder of the Company. Messrs. Yang Shiqin, Li Jianhua and Wang Shunian are therefore considered sufficiently independent to form the Independent Board Committee.

CAPITAL RESTRUCTURING

Share Consolidation

At the Latest Practicable Date, the authorised share capital of the Company was HK\$800,000,000 comprising 8,000,000,000 Shares of HK\$0.10 each, of which 5,095,560,175 Shares had been issued and were fully paid. Immediately following the Share Consolidation becoming effective and based on the Existing Shares in issue, the share capital of the Company will comprise 101,911,203 issued Consolidated Shares and 2,904,439,825 unissued Existing Shares.

Capital Reduction

Based on the number of Existing Shares in issue as at the Latest Practicable Date and immediately after the Share Consolidation (assuming no further issue of Shares), the issued share capital of the Company of approximately HK\$509,556,018 consisting of 101,911,203 issued Consolidated Shares will be reduced by approximately HK\$508,536,906 to approximately HK\$1,019,112 consisting of 101,911,203 Adjusted Shares ranking pari passu in all respects with each other.

On the basis of 101,911,203 Consolidated Shares in issue, the credit of HK\$508,536,906 arising in the books of the Company from the Capital Reduction will be credited to the contributed surplus account of the Company, where it may be utilised in accordance with the bye-laws of the Company and all applicable laws, including to reduce the accumulated losses of the Company, which were in the amount of HK\$213,450,000 as at 30 April 2002.

LETTER FROM THE BOARD

Subdivision

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$800,000,000 divided into 8,000,000,000 Existing Shares. Upon the Capital Restructuring becoming effective, the authorised share capital of the Company will remain at HK\$800,000,000 and will comprise 80,000,000,000 Adjusted Shares of which 101,911,203 Adjusted Shares will be issued and 79,898,088,797 will be unissued.

Fractions of Adjusted Shares will be aggregated and, if possible, sold in the market for the benefit of the Company.

Financial effects of the Capital Restructuring

Other than the related expenses, the implementation of the Capital Restructuring will have no effect on the consolidated net asset value of the Group, nor will it alter the underlying assets, business, operations, management or financial position of the Company or the interests of the Shareholders as a whole. The Directors believe that the Capital Restructuring will not have any material adverse effect on the financial position of the Group.

Reason for the Capital Restructuring

The Board believes that the Capital Restructuring will be beneficial to the Company and the Shareholders as a whole as it will reduce transaction costs for those dealing in Shares. Subject to any applicable laws and regulations and any restrictions contained in the bye-laws of the Company, the credit in the contributed surplus account arising as a result of the Capital Reduction will be used first to reduce the accumulated losses of the Company of approximately HK\$213,450,000 as at 30 April 2002 and the remaining balance may be applied in the future for distribution to the Shareholders. The Board currently has no intention for the Company to make any distributions to the Shareholders.

The Existing Shares are currently traded in board lots of 2,000. Upon the Capital Restructuring becoming effective, the Adjusted Shares will be traded in board lots of 2,000 Adjusted Shares and accordingly, the theoretical market value of each board lot upon the Capital Restructuring becoming effective will be approximately 50 times the market value of the current board lot. Based on the closing price quoted on the Stock Exchange on the Last Trading Day of HK\$0.052 per Existing Share, the values per board lot of 2,000 Existing Shares and of 2,000 Adjusted Shares are HK\$104 and will be HK\$5,200 respectively. The transaction cost per dollar value of each Adjusted Share will therefore be lower.

Conditions of the Capital Restructuring

The Capital Restructuring is conditional upon the following:–

- (a) the passing by the Shareholders of a special resolution at the SGM to approve the Capital Restructuring;
- (b) the publication of a notice in an appointed newspaper in Bermuda on a date not more than 30 days and not less than 15 days before the date as from which the Capital Reduction is to take effect, in accordance with section 46 of the Companies Act 1981 of Bermuda;

LETTER FROM THE BOARD

- (c) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Adjusted Shares and the Adjusted Shares falling to be issued upon exercise of the conversion rights attached to the Options and Convertible Notes; and
- (d) the obtaining of all necessary approvals from the regulatory authorities or otherwise as may be required in respect of the Capital Restructuring.

Expected effective date of the Capital Restructuring

Subject to the above conditions being fulfilled, the Capital Restructuring is expected to become effective at 9:30 a.m. on 22 April 2003.

Free exchange of Adjusted Share certificates and parallel trading arrangements

After the Capital Restructuring becoming effective, the arrangement proposed for dealings in the Adjusted Shares are expected to be as follows:

From 22 April 2003, the existing counter for trading in the Existing Shares in board lots of 2,000 shares will be temporarily closed. A temporary counter will be established for trading in the Adjusted Shares in board lots of 40 Adjusted Shares. Certificates for Existing Shares may only be traded at this temporary counter.

With effect from 7 May 2003, the existing counter for trading in Existing Shares will be reopened for trading in the Adjusted Shares in board lots of 2,000 Adjusted Shares.

From 7 May 2003 to 29 May 2003, both days inclusive, there will be parallel trading at the two counters for trading in Adjusted Shares in board lots of 2,000 Adjusted Shares and 40 Adjusted Shares.

The temporary counter for trading in the Adjusted Shares in board lots of 40 Adjusted shares will be removed after the close of trading on 29 May 2003. Thereafter, trading will be in board lots of 2,000 Adjusted Shares only and the existing share certificates for Existing Shares will cease to be marketable and will not be acceptable for dealing purpose. However, such share certificates will remain effective as documents of title.

Subject to the Capital Restructuring becoming effective, which is expected to be on 22 April 2003, Shareholders may on or after 22 April 2003 until 3 June 2003 submit certificates for the Existing Shares to the Company's branch share registrar in Hong Kong, Abacus Share Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for exchange, at the expense of the Company, for certificates for Adjusted Shares. Thereafter, certificates for the Existing Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each new certificate issued for the Adjusted Shares. Certificates for Existing Shares will only be valid for delivery and settlement in respect of dealing for the period up to 29 May 2003. Thereafter, they will not be accepted for dealing purpose. Nevertheless, certificates for the Existing Shares will continue to be good evidence of legal title and may be exchanged for certificates for the Adjusted Shares at any time. In order to alleviate the difficulties arising from the existence of odd lots of Adjusted Shares, the Company will procure an agent to seek to arrange to match sales and purchases of odd lots of Adjusted Shares.

LETTER FROM THE BOARD

THE OPEN OFFER

The Open Offer is subject to the conditions set out below under the heading “Conditions of the Open Offer” and is proposed to take place after the Capital Restructuring has become effective. The Capital Restructuring is expected to become effective at 9:30 a.m. on 22 April 2003.

Issue statistics

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| Basis of the assured allotments under the Open Offer: | Five Offer Shares for every Adjusted Share held by Qualifying Shareholders as at the Record Date. No Offer Shares will be allotted to Qualifying Shareholders in excess of their assured allotments |
| Number of Existing Shares in issue: | 5,095,560,175 Shares (equivalent to 101,911,203 Adjusted Shares) |
| Subscription Price: | HK\$0.10 per Offer Share |
| Minimum number of Offer Shares: (assuming no outstanding Options or Convertible Notes are exercised before the Record Date) | 509,556,015 Offer Shares |
| Number of outstanding Options: | Options convertible into 239,724,000 Shares (equivalent to 4,794,480 Adjusted Shares, and approximately 4.7% of the Company’s existing issued share capital) |
| Number of outstanding Convertible Notes: | Convertible Notes convertible into 1,953,047,030 Existing Shares |
| Maximum number of Offer Shares: (assuming full exercise of the outstanding Options except those held by Mr. Kok, Mr. Lam and Mr. Li before the Record Date) | 526,528,415 Offer Shares |

Qualifying Shareholders will be assured of receiving the number of Offer Shares applied for if application is made for a number of Offer Shares equal to or less than the number in their assured allotments. No applications for Offer Shares in excess of assured allotments will be considered (to the extent of the excess) and no Offer Shares will be allotted to Shareholders in excess of their assured allotments.

Qualifying Shareholders:

Subject to satisfaction of the conditions to which the Open Offer is subject, the Company will send the Offering Documents to the Qualifying Shareholders only and the Offering Circular will be sent to Overseas Shareholders for information only.

LETTER FROM THE BOARD

To qualify for the Open Offer, a Shareholder must:

- be registered as a member of the Company on the Record Date; and
- have an address in Hong Kong on the register of members of the Company on that day.

In order to qualify for the Open Offer, any transfer of Shares (with the relevant share certificates) must be lodged with the Company's branch share registrar in Hong Kong, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by 4:00 p.m. on 24 April 2003.

The assured allotments of Offer Shares will not be transferable or capable of renunciation and there will not be any trading in assured allotments on the Stock Exchange.

The register of members of the Company will be closed from 25 April 2003 to 29 April 2003, both days inclusive. No transfer of Shares will be registered during this period.

Undertaking by the Controlling Shareholder

As at the Latest Practicable Date, the Controlling Shareholder together with parties acting in concert with it held in aggregate 1,699,092,000 Shares, representing approximately 33.3% of the Company's issued share capital, Options to subscribe for 30,000,000 Shares representing approximately 0.6% of the Company's existing issued share capital and Convertible Notes to subscribe for in aggregate 1,139,141,100 Shares representing approximately 22.4% of the Company's existing issued share capital. The Controlling Shareholder and Mr. Kok have irrevocably undertaken to the Company that the Shares directly or indirectly and beneficially owned by them will remain directly or indirectly and beneficially owned by them from the Latest Practicable Date to 31 May 2003 and that they will not exercise such Options or Convertible Notes before such date. The Controlling Shareholder has irrevocably undertaken to the Company not to apply or procure applications for its full assured allotment under the Open Offer, amounting to 169,909,200 Offer Shares. The Underwriter has agreed to underwrite the Offer Shares, amounting to not less than 509,556,015 Offer Shares and not more than 526,528,415 Offer Shares on the terms and subject to fulfilment of the conditions set out in the Underwriting Agreement, and to the Underwriting Agreement not being terminated.

Undertaking by Mr. Lam

As at the Latest Practicable Date, there were outstanding Options to subscribe for an aggregate of 239,724,000 Shares (equivalent to approximately 4.7% of the total number of existing issued Shares). Mr. Lam, being a Director and an Option holder, who is entitled to subscribe for 20,000,000 Shares, has given an irrevocable undertaking to the Company not to exercise his Options on or before 31 May 2003. Mr. Lam did not own any Shares as at the Latest Practicable Date and cannot apply in the Open Offer unless he acquires Shares before the Record Date. He has however agreed not to do so.

LETTER FROM THE BOARD

Undertaking by Mr. Li

As at the Latest Practicable Date, there were outstanding Convertible Notes to subscribe for an aggregate of 1,953,047,030 Shares (equivalent to approximately 38.3% of the existing issued Shares), held by a total of two noteholders. Mr. Li, being a director of a subsidiary of the Company and holder of Options and Convertible Notes to subscribe for or convert into 20,000,000 and 813,905,930 Shares respectively, has given an irrevocable undertaking to the Company not to exercise or convert his Options and Convertible Note on or before 31 May 2003. Mr. Li did not own any Shares as at the Latest Practicable Date and cannot apply in the Open Offer unless he acquires Shares before the Record Date. He has however agreed not to do so.

Messrs. Li and Lam were not involved in any discussions with the Company about the proposals described herein and are not interested in the proposals.

Terms of the Open Offer

Subscription price:

The Subscription Price payable for an Offer Share under the Open Offer is HK\$0.10 per Offer Share, payable in full when a Qualifying Shareholder applies in the Open Offer. It represents (i) a discount of approximately 96.2% to the closing price of HK\$2.6 per 50 Shares as quoted on the Stock Exchange on 16 January 2003, the last day on which the Shares were traded immediately preceding the issue of the Announcement; (ii) a discount of approximately 96.4% to the average closing price of approximately HK\$2.815 per 50 Shares as quoted on the Stock Exchange on the last ten trading days up to and including 16 January 2003; and (iii) a discount of approximately 80.6% to the theoretical ex-entitlements price of HK\$0.517 per Adjusted Share based on the closing price as quoted on the Stock Exchange on 16 January 2003.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter based on their respective views of the financial position and prospects of the Company and not by reference to any particular criterion.

Status of the Offer Shares

The Offer Shares will on issue rank pari passu in all respects with the Existing Shares and any Adjusted Shares. Subscribers of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date on which the Offer Shares are allotted.

Share certificates

Subject to the fulfilment of the conditions of the Open Offer, certificates for the Offer Shares are expected to be posted to successful applicants on the terms of the Open Offer at their own risk on or before 14 May 2003.

Rights of Overseas Shareholders

The Offering Documents will not be registered under the applicable securities legislation in any jurisdictions other than Hong Kong and Bermuda. As the Directors are of the view that the offer of Offer Shares to Overseas Shareholders would or might, in the absence of compliance with

LETTER FROM THE BOARD

registration or other special formalities in jurisdictions outside Hong Kong, be unlawful or impracticable, the Company will send the Offering Circular to the Overseas Shareholders for their information only but no Application Form will be sent to the Overseas Shareholders. The Overseas Shareholders will not be entitled to take part in the Open Offer. However, they will be entitled to attend and vote at the SGM.

Fractions of Offer Shares

There will be no assured allotment of fractions of Offer Shares and the fractions of Offer Shares which would otherwise form part of assured allotments (if any) will be taken up by the Underwriter or disregarded.

No application for Offer Shares in excess of assured allotment

Qualifying Shareholders are not entitled to apply for any number of Offer Shares in excess of their assured allotments.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Adjusted Shares and the Offer Shares.

Underwriting Agreement

| | |
|--------------------------------------|---|
| Date: | 29 January 2003 |
| Underwriter: | All About Investments Limited |
| Number of Offer Shares underwritten: | a minimum of 509,556,015 Offer Shares and a maximum of 526,528,415 Offer Shares assuming that all Options are exercised in full (except those held by Mr. Kok, Mr. Lam and Mr. Li) on or before the Record Date |
| Underwriting commission: | nil |

As at the Latest Practicable Date, the Underwriter and its associates and parties acting in concert with any of them were interested in a total of 1,699,092,000 Shares, representing approximately 33.3% of the issued share capital of the Company.

The Open Offer is fully underwritten by the Underwriter. The Underwriter has agreed to underwrite a minimum of 509,556,015 Offer Shares (assuming no outstanding Options or Convertible Notes are exercised before the Record Date) and a maximum of 526,528,415 Offer Shares (assuming full exercise of the outstanding Options except those held by Mr. Kok, Mr. Lam and Mr. Li). The Underwriter is wholly-owned by Mr. Kok. In view of stock market conditions and global political and economic uncertainties which are likely to continue to affect markets, the Directors consider it unlikely that an independent underwriter would be willing to underwrite the Open Offer on terms as favourable to the Company as those agreed by the Underwriter. The Underwriter's ordinary course of business does not include underwriting. The Underwriter does not have any agreement, arrangement or understanding with any other person to transfer any securities it acquires under the Open Offer.

LETTER FROM THE BOARD

Termination of the Underwriting Agreement

The Underwriter has the right to terminate the Underwriting Agreement in which case the Open Offer will not proceed. That termination right may be exercised by the Underwriter at any time on or before 4:00 p.m. on the second Business Day following the last day for application and payment for the Offer Shares, if there occurs any force majeure event. "Force majeure" for this purpose includes:-

- a. the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or
- b. the occurrence of any local, national or international event or change (whether or not forming part of series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not ejusdem generis with any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market which in the reasonable opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Open Offer or make it inadvisable or inexpedient to proceed with the Open Offer.

If, after the last day for application and payment for the Offer Shares but at or prior to 4:00 p.m. on the second Business Day thereof,

- (i) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or
- (ii) the Underwriter receives the relevant notification pursuant to the Underwriting Agreement or otherwise becomes aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter, in its reasonable opinion, determines that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Open Offer; or
- (iii) the Company, after any matter or event referred to in the relevant clauses of the Underwriting Agreement has occurred or come to the Underwriter's attention, fails promptly to send out any announcement or circular (after the despatch of this circular or the Offering Documents), in such manner (and as appropriate with such contents) as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company;

LETTER FROM THE BOARD

the Underwriter shall be entitled (but not bound) by notice in writing to the Company to elect to treat such matter or event as releasing and discharging the Underwriter from its obligations under the Underwriting Agreement.

Conditions of the Open Offer

The Open Offer is conditional upon:

- a. the approval of the Capital Restructuring by Shareholders at the SGM and the Capital Restructuring becoming effective thereafter;
- b. the approval of the Open Offer by the Independent Shareholders at the SGM voting by way of a poll, on which the non-Independent Shareholders abstain from voting;
- c. the Listing Committee of the Stock Exchange granting or agreeing to grant the listing of, and permission to deal in, the Offer Shares, either unconditionally or subject to such conditions which the Company accepts and the satisfaction of such conditions (if any) by no later than the date on which the Offering Circular regarding the Open Offer are posted and not having withdrawn or revoked such listing and permission on or before 4:00 p.m. on the second Business Day following the last day for application and payment for the Offer Shares;
- d. the delivery to the Stock Exchange and filing and registration with the Registrar of Companies in Hong Kong of one copy of the Offering Documents duly certified in accordance with the Companies Ordinance and otherwise complying with the requirements of the Companies Ordinance and the Listing Rules;
- e. compliance with all other requirements under the applicable laws and regulations of Hong Kong and Bermuda; and
- f. the obligations of the Underwriter under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms thereof, including provisions regarding force majeure.

These conditions will not be waived.

BUSINESS REVIEW AND FUTURE PLANS OF THE GROUP

The Group is principally engaged in the trading of mobile phones, parts and components in Asia. The Group also operated businesses in the trading of furniture and building materials in Hong Kong. However, the Directors did not expect the business of trading in furniture and building materials to improve and gradually contracted or disposed of the Group's operations in this area in the year 2001 and 2002.

In November 2001 and March 2002, the Group acquired an aggregate 90% interest in Ezcom Technology Limited (formerly known as Scom New Technology Limited), whose businesses are in the trading of mobile phones and distribution of consumer electronic products in the PRC. Furthermore, the acquisition in November 2002 of a 33.98% interest in Ezze Mobile Tech., Inc. which is a Korean-based mobile telecommunications solutions provider has enabled the Group to focus more on its core business of trading of mobile phones, parts and components in the PRC and

LETTER FROM THE BOARD

complemented the Group's vision to become a full-service mobile telecommunications solutions provider. For the two years ended 30 April 2001 and 2002, the Group had a total turnover of approximately HK\$752.8 million and HK\$1,480.2 million respectively. As the Group only acquired the business of trading mobile phones, parts and components in November 2001, the total turnover of the Group for the year 2001 consisted only of its office furniture and building materials operations which amounted to approximately HK\$701.3 million and its kitchen cabinets operations which amounted to approximately HK\$51.5 million, representing approximately 93.2% and 6.8% of the total turnover for the year respectively. For the year ended 30 April 2002, the Group recorded a total turnover of approximately HK\$1,480.2 million of which approximately HK\$905.8 million came from its mobile phones, parts and components operations, approximately HK\$489.6 million came from its office furniture and building materials operations and approximately HK\$84.8 million arose out of its kitchen cabinets operations, representing approximately 61.2%, 33.1% and 5.7% of the total turnover for the year respectively. As disclosed in the published unaudited results of the Group for the six months ended 31 October 2002, the total turnover of the Group for that period amounted to approximately HK\$1,577 million which comprised of approximately HK\$1,408 million from its mobile phones operations, approximately HK\$151.2 million from its office furniture operations and approximately HK\$17.8 million from its kitchen cabinets operations, representing approximately 89.3%, 9.6% and 1.1% of the Group's total turnover for the period respectively.

Owing to the poor performance of the office furniture businesses for the year 2001 and 2002, the Directors do not expect there to be any significant improvement in the industry in the near future. The Group's plan in the future is to focus on its main core business in the trading of mobile phones, parts and components.

As the Group gradually contracted or disposed of its operations in the trading of furniture and building materials and focused on the business of trading mobile phones, parts and components, its demand for trade financing in the form of letters of credit from banks increased. The consolidated audited results of the Group show that the total turnover of the Group increased from approximately HK\$753 million for the year ended 30 April 2001 to approximately HK\$1,480 million for the year ended 30 April 2002. As the Group purchases most of its trading stocks by letters of credit, a significant increase in the turnover of the Group has also triggered a significant increase in the demand for trade financing in the form of letters of credit. In view of the anticipated opportunities of further expansion of its business, the Company has put a lot of efforts in improving its creditworthiness and building up commercial relationships with banks. Although interest rates for short term financing are generally higher than those offered in long term finance, the Directors believe that it is commercially prudent for the Group to finance its increasing trading volume with short term trade finance facilities in the form of letters of credit which offer more flexibility in business development.

After the completion of the Open Offer, the Underwriter and its concert parties (including the Controlling Shareholder) intend to continue the existing businesses of the Group and to continue the employment of the employees of the Company and its subsidiaries. The Underwriter and its concert parties (including the Controlling Shareholder) do not intend to introduce any major changes in the Group's business, including any redeployment of its fixed assets.

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

In view of the current market conditions and economic climate, the Directors consider that it is prudent to finance the Company's growth with longer term funding, preferably in the form of equity rather than debt. Having regard to the relatively thin trading of the Shares and the level of

LETTER FROM THE BOARD

the Subscription Price, the Directors do not expect there to be any strong or active market in any nil-paid shares which would have been provisionally allotted to Shareholders had the present exercise been a rights issue. In the circumstances and given that raising funds by way of an open offer enables the existing Shareholders to maintain their percentage interests in the same way as would a rights issue, in contrast to, for example, a private placement of Shares which would result in a dilution of existing Shareholders' interests in the Company, the Directors have decided to proceed with the Open Offer and dispense with the additional administrative burden of providing for trading in nil-paid rights. Qualifying Shareholders who do not accept all or part of their entitlements under the Open Offer will suffer a dilution of their shareholdings.

If the Open Offer and the Special Deal is approved, it will enable the Company to strengthen its balance sheet by reducing its debt to Mr. Kok from approximately HK\$114 million to approximately HK\$65 million thus reducing exposure to its single largest creditor and ultimate largest shareholder. HK\$158,304,703 principal amount of the non-interest bearing Convertible Notes falls due for payment on 27 March 2004 and HK\$37,000,000 falls due for payment on 7 November 2004 according to their terms but the Company has the right to prepay the Convertible Notes. This repayment would be a "special deal" under Rule 25 of the Takeovers Code were an offer to be made for the Company and is subject to the approval of Independent Shareholders. An application has been made to the Executive for a consent to the Special Deal and the Executive has indicated that it will grant the consent, provided that the Independent Financial Adviser publicly states that in its opinion the terms of the transaction are fair and reasonable and the transaction is approved at a general meeting of the Company's shareholders. The vote must be a vote by poll of the Independent Shareholders, being Shareholders who are not involved in or interested in the transaction.

The estimated net proceeds of the Open Offer will be approximately HK\$49 million (assuming no exercise of Options or Convertible Notes on or before the Record Date). The Directors consider that it would be appropriate in the present market conditions for the Company to use all the net proceeds of the Open Offer for the Special Deal. After that repayment of not less than HK\$49 million, certain Convertible Notes will remain in issue, of which approximately HK\$64,914,110 principal amount are owned by Mr. Kok and HK\$81,390,593 are owned by Mr. Li. HK\$81,390,593 principal amount of the Convertible Notes owned by Mr. Li falls due for repayment on 27 March 2004, approximately HK\$27,914,110 principal amount of the Convertible Notes owned by Mr. Kok falls due for repayment on 27 March 2004 and HK\$37,000,000 principal amount falls due for repayment on 7 November 2004, according to their terms. The total amount of debt of the Company will be reduced from approximately HK\$289.6 million (comprising secured trust receipt loans of approximately HK\$45.0 million, bills payable of approximately HK\$29.2 million, secured bank loans of approximately HK\$20.1 million and unsecured Convertible Notes of approximately HK\$195.3 million) as at 31 January 2003 to approximately HK\$240.6 million after completion of the Open Offer and repayment of part of the Convertible Notes held by Mr. Kok. Taking into account the repayment of HK\$51 million of the outstanding amount of the Convertible Notes held by Mr. Kok in January 2003, the gearing ratio of the Group will be reduced from approximately 141% to 94.7%. The shareholders' funds will also increase, from approximately HK\$448.7 million as at 31 October 2002 to approximately HK\$497.7 million after the completion of the Open Offer and repayment of part of the Convertible Notes held by Mr. Kok. In this way the debts of the Company will be reduced and its shareholders' funds will be increased, to the benefit of the Company and its Shareholders.

LETTER FROM THE BOARD

The Convertible Notes held by Mr. Kok to be repaid are non-interest bearing. The plan to make the Open Offer arose because of the Company's wish to reduce its debt. The Directors considered uses for the proceeds of the Open Offer such as working capital purpose and the repayment of the other Convertible Notes (held by Mr. Li). They concluded that repayment of the Convertible Notes held by Mr. Kok was the most desirable use of proceeds. Their reasons included that Mr. Kok is the single largest creditor (also the ultimate largest shareholder) of the Company and the Directors considered it desirable to reduce the Company's exposure to its single largest creditor in particular when it is an individual as there could be an adverse impact on the Company in the event of the death or bankruptcy of the creditor which will lead to interference by the trustee. The Company might then be forced to deal with the trustee whose dealing is to realise the assets of the individual as quickly as possible. In the event of the death of a human creditor, companies will also be faced with moral decisions as the relatives of the deceased may require the repayment of the debt urgently. Mr. Li, the holder of the other Convertible Notes in the amount of HK\$81,390,593, has agreed to the proceeds being used to repay Convertible Notes held by Mr. Kok.

The Company is principally engaged in trading. Banks are usually reluctant to offer a facility to trading company due to lack of collateral. The Company has put a lot of effort in improving its creditworthiness and building up commercial relationship with the banks. There is a commercial relationship maintained between the Group and the banks by and during the subsistence of the loans made by these banks. Early repayment could affect this commercial relationship and is not in line with the terms of the facility letters. Prepayment of the mortgage would have incurred penalties for the Company. Owing to the fact that the Directors intend to reduce the Company's overall indebtedness without harming its relationship with the banks or incurring penalties, the Company therefore chose to repay the non-interest bearing Convertible Notes instead of an interest bearing bank loan. These "relationship loans" with the banks are for the purpose of maintaining a good and unbroken credit record.

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out possible shareholding structures of the Company in the scenarios described below.

| | Scenario 1 | | Scenario 2 | | Scenario 3 | | Scenario 4 | | Scenario 5 | |
|--|--------------------|------------|------------------------|------------|------------------------|------------|------------------------|------------|------------------------|------------|
| | <i>Shares</i> | <i>%</i> | <i>Adjusted Shares</i> | <i>%</i> | <i>Adjusted Shares</i> | <i>%</i> | <i>Adjusted Shares</i> | <i>%</i> | <i>Adjusted Shares</i> | <i>%</i> |
| | '000 | | '000 | | '000 | | '000 | | '000 | |
| Controlling Shareholder and parties in concert | 1,699,092 | 33.3 | 33,981.8 | 5.6 | 33,981.8 | 5.6 | 33,981.8 | 5.4 | 33,981.8 | 5.4 |
| Underwriter | 0 | 0 | 169,909.2 | 27.7 | 509,556 | 83.3 | 169,909.2 | 26.9 | 526,528.5 | 83.3 |
| Subtotal: | 1,699,092 | 33.3 | 203,891 | 33.3 | 543,537.8 | 88.9 | 203,891 | 32.3 | 560,510.3 | 88.7 |
| Public | 3,396,468.2 | 66.7 | 407,576.2 | 66.7 | 67,929.4 | 11.1 | 427,943.1 | 67.7 | 71,323.8 | 11.3 |
| Total: | <u>5,095,560.2</u> | <u>100</u> | <u>611,467.2</u> | <u>100</u> | <u>611,467.2</u> | <u>100</u> | <u>631,834.1</u> | <u>100</u> | <u>631,834.1</u> | <u>100</u> |

LETTER FROM THE BOARD

NOTE: FIGURES ROUNDED

- Scenario 1** – Latest Practicable Date
- Scenario 2** – Immediately after completion of the Open Offer (assuming no outstanding Options or Convertible Notes are exercised before the Record Date, and assuming that applications are made by the Qualifying Shareholders, with the exception of the Controlling Shareholder, for all the Offer Shares pro-rata to their existing shareholding)
- Scenario 3** – Immediately after completion of the Open Offer (assuming no outstanding Options or Convertible Notes are exercised before the Record Date, and assuming that no applications are made by the Qualifying Shareholders for any of the Offer Shares)
- Scenario 4** – Immediately after completion of the Open Offer (assuming all the outstanding Options except those held by Mr. Kok, Mr. Lam and Mr. Li are fully exercised before the Record Date, and assuming that applications are made by the Qualifying Shareholders, with the exception of the Controlling Shareholder, for all the Offer Shares pro-rata to their existing shareholding)
- Scenario 5** – Immediately after completion of the Open Offer (assuming all the outstanding Options except those held by Mr. Kok, Mr. Lam and Mr. Li are fully exercised before the Record Date, assuming that no applications are made by the Qualifying Shareholders for any of the Offer Shares)

All percentages shown in the table of shareholdings above are approximate only.

In both scenarios 3 and 5, the public float will drop below 25% of the enlarged issued share capital of the Company upon completion of the Open Offer. In such event, the Directors will take steps as soon as practicable following the close of the Open Offer to ensure that the public float of the Company is not less than 25% of the enlarged issued share capital of the Company. Your attention is drawn to the section headed “Public float” in the Letter from the Board on page 23 of this circular.

The Controlling Shareholder has irrevocably undertaken to the Company not to apply for its assured allotment under the Open Offer, amounting to 169,909,200 Offer Shares.

Whitewash Waiver

As at the Latest Practicable Date, the Underwriter and its concert parties were interested in a total of 1,699,092,000 Shares, representing approximately 33.3% of the issued share capital of the Company.

On 19 October 2001 the Underwriter and its concert parties were interested in more than 30% but less than 35% of the voting rights in the Company and are thus subject to the transitional provisions under Rules 26.6 and 26.7 of the Takeovers Code. These include a requirement to make a general offer for securities of the Company in the event they acquire voting rights of the Company equal to or exceeding 35% of those voting rights.

Immediately upon completion of the Open Offer, the Underwriter and its concert parties will be interested in between 203,891,040 Adjusted Shares representing approximately 33.3% (if all Shareholders take up their assured allotments of Open Offer Shares) and 543,557,855 Adjusted Shares representing approximately 88.9% (if no Open Offer Shares are taken up by anyone other than the Underwriter and its concert parties) of the issued share capital of the Company (depending on the level of the applications for the Open Offer by the Shareholders and assuming no outstanding Options or Convertible Notes are exercised before the Record Date). Accordingly, if as a result of its taking up the Offer Shares under the Underwriting Agreement, the Underwriter and its concert

LETTER FROM THE BOARD

parties acquire shares which increases their aggregate holding of voting rights to 35% or more, the Underwriter will, in the absence of the Whitewash Waiver, be required under Rule 26 of the Takeovers Code to make a general offer for the Shares, Convertible Notes and Options other than those held by the Underwriter and parties acting in concert with it.

The Underwriter has made an application to the Executive under Note 1 to Dispensations from Rule 26 of the Takeovers Code for the Whitewash Waiver and the Executive has indicated that it will grant the waiver subject to the approval of the Independent Shareholders at the SGM voting by way of a poll.

Upon completion of the Open Offer and depending on the level of applications in the Open Offer by the Shareholders, the Underwriter and its concert parties may hold more than 50% of the Shares then in issue. In such event, if the Whitewash Waiver is approved by Independent Shareholders, the Controlling Shareholder may acquire additional Shares without triggering any further obligation for a general offer under the Takeovers Code. If the aggregate interests of the Underwriter and its concert parties immediately upon completion of the Open Offer are between 30% and 50% and the Whitewash Waiver is granted, they will be allowed to acquire a further 2% of the enlarged issued share capital of the Company in the 12 months immediately following completion of the Open Offer.

Possible mandatory general offers

In the event that the Whitewash Waiver is not approved by Independent Shareholders and it incurs an obligation to make a mandatory general offer under the Takeovers Code for Shares, Options and Convertible Notes, the Underwriter will, in accordance with Rule 26 of the Takeovers Code, make an unconditional cash offer at HK\$0.10 per Adjusted Share, which is equal to the Subscription Price, for all issued Adjusted Shares not already owned or agreed to be acquired by it or parties acting in concert with it.

The Underwriter has confirmed to the Company that neither it nor any person acting in concert with it has acquired voting rights in the Company in the 6 months prior to the Announcement on 29 January 2003 but subsequent to negotiations, discussions or the reaching of understandings or agreements with the Directors in relation to the Open Offer. The Independent Board Committee has been formed to advise Independent Shareholders on the Open Offer, the Whitewash Waiver, the Special Deal and, if relevant, the general offer and First Asia Finance Group Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee.

The Company has no securities in issue that give the holders the right to acquire Shares other than the Convertible Notes and the Options. Baron Capital Limited and Dao Heng Securities Limited have confirmed that financial resources are available to the Underwriter sufficient to satisfy the underwriting of the Open Offer and will confirm the sufficiency of the financial resources available to the Underwriter if and when a general offer obligation arises.

LISTING AND DEALINGS

The shares of the Company are listed on the Stock Exchange.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Adjusted Shares and the Offer Shares. There is no other stock exchange on which any part of the securities of the Company is listed or dealt in on which listing or permission to deal is being or proposed to be sought.

LETTER FROM THE BOARD

Subject to the granting of the listing of, and permission to deal in, the Adjusted Shares and the Offer Shares on the Stock Exchange, the Adjusted Shares and the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement dates of dealings in the Adjusted Shares and the Offer Shares on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

There are no arrangements under which future dividends are waived or agreed to be waived.

Existing Shares will be dealt in on an ex-entitlement basis from 23 April 2003. If the conditions of the Open Offer are not fulfilled, the Open Offer will not proceed. Shareholders and potential investors should therefore exercise caution when dealing in the Shares and, if they are in any doubt about their position, they should consult their professional advisers.

PERMISSION OF THE BERMUDA MONETARY AUTHORITY

Permission under the Exchange Control Act 1972 of Bermuda (and regulations made thereunder) has been received from the BMA in respect of the issue of the Offer Shares to persons regarded as non-residents of Bermuda for exchange control purposes subject to the requirement that the Offer Shares are listed on the Stock Exchange. In granting such permission and in accepting the Offering Documents for filing, neither the BMA nor the Registrar of Companies of Bermuda accepts any responsibility for the financial soundness of the Group or for the correctness of any statements made or opinions expressed in the Offering Documents.

ADJUSTMENT IN RELATION TO THE EXERCISE/CONVERSION PRICE OF OPTIONS AND CONVERTIBLE NOTES

Options

As at the Latest Practicable Date, there were outstanding (i) Options which, if exercised in full would result in the issue of 120,000,000 Existing Shares at HK\$0.10 per Existing Share (“Group I Options”); (ii) Options which, if exercised in full would result in the issue of 68,100,000 Existing Shares at HK\$0.11 per Existing Share (“Group II Options”); (iii) Options which, if exercised in full would result in the issue of 51,336,000 Existing Shares at HK\$0.26 per Existing Share (“Group III Options”); and (iv) Options which, if exercised in full would result in the issue of 288,000 Existing Shares at HK\$0.32 per Existing Share (“Group IV Options”). The aggregate number of Existing Shares which would fall to be issued if all outstanding Options were exercised would be 239,724,000 Shares (equivalent to approximately 4.7% of the Company’s existing issued share capital).

After the implementation of the Capital Restructuring but before the Open Offer becoming unconditional

The implementation of the Capital Restructuring would result in adjustments to the exercise price and the number of Shares to be issued pursuant to the exercise of Options. The new number of Shares to be issued after the implementation of the Capital Restructuring but before the Open Offer becoming unconditional, assuming exercise in full of the (i) Group I Options would be 2,400,000 Adjusted Shares at HK\$5.00 each; (ii) Group II Options would be 1,362,000 Adjusted

LETTER FROM THE BOARD

Shares at HK\$5.28 each; (iii) Group III Options would be 1,026,720 Adjusted Shares at HK\$13.10 each; and (iv) Group IV Options would be 5,760 Adjusted Shares at HK\$15.82 each, all groups of Options subject to the Capital Restructuring becoming unconditional. The aggregate number of Adjusted Shares which fall to be issued if all outstanding Options are exercised would be 4,794,480 Adjusted Shares (equivalent to approximately 4.7% of the Company's issued share capital after the Capital Restructuring but before the Open Offer).

After the implementation of the Capital Restructuring and upon the Open Offer becoming unconditional

After the implementation of the Capital Restructuring and upon the Open Offer becoming unconditional, adjustments will be made to the exercise price and the number of Shares to be issued pursuant to the exercise of Options. The new number of Shares to be issued, assuming exercise in full of the (i) Group I Options would be 14,400,000 Adjusted Shares at HK\$0.99 each; (ii) Group II Options would be 8,172,000 Adjusted Shares at HK\$1.05 each; (iii) Group III Options would be 6,160,320 Adjusted Shares at HK\$2.60 each; and (iv) Group IV Options would be 34,560 Adjusted Shares at HK\$3.14 each, all groups of Options subject to the Open Offer becoming unconditional. The aggregate number of Adjusted Shares which fall to be issued if all outstanding Options are exercised would be 28,766,880 Adjusted Shares (equivalent to approximately 4.7% of the Company's issued share capital after the Capital Restructuring and the Open Offer).

Convertible Notes

As at the Latest Practicable Date, there were outstanding Convertible Notes which are convertible into 1,953,047,030 Existing Shares (equivalent to approximately 38.3% of the Company's existing issued share capital) at a conversion price of HK\$0.10.

The implementation of the Capital Restructuring would result in adjustments to the conversion price and the number of Shares to be issued pursuant to terms of the Convertible Notes. The total number of Adjusted Shares to be issued after the implementation of the Capital Restructuring upon conversion of all the outstanding Convertible Notes are 39,060,940 Adjusted Shares (equivalent to approximately 6.39% of the enlarged issued share capital after the Open Offer and assuming that no outstanding Options or Convertible Notes are exercised). The conversion price would be adjusted to HK\$5.00. In accordance with the terms of the Convertible Notes, no adjustments will be made to the conversion price or the number of Shares to be issued as a result of the Open Offer.

PUBLIC FLOAT

The Directors have undertaken to the Stock Exchange that in the event that after the Open Offer less than 25% of the Shares are in public hands, they will take steps as soon as practicable following the close of the Open Offer to ensure that the public float of the Company is not less than 25% of the enlarged issued share capital of the Company. The Directors do not intend to delist the Company in the event that the public float of the Company falls below 25% of the enlarged share capital of the Company in issue after the completion of the Open Offer.

The Stock Exchange has stated that if less than 25% of the Shares are in public hands following the Open Offer or if the Stock Exchange believes that:-

- (a) a false market exists or may exist in the trading of the Shares; or
- (b) there are insufficient Shares in public hands to maintain an orderly market;

it will consider exercising a discretion to suspend trading in the Shares.

LETTER FROM THE BOARD

GENERAL MANDATE AND REPURCHASE MANDATE

The share capital of the Company will be enlarged as a result of the Open Offer. The General Mandate and the Repurchase Mandate will expand and replace the existing general mandates to issue and purchase Shares which the Company currently has in place to ensure that the Adjusted Shares issued in connection with the Open Offer will be included in calculating the number of Shares which are permitted to be allotted, issued or otherwise dealt with or repurchased by the Company under the existing general mandates to issue and purchase Shares.

The General Mandate will grant to the Directors the authority to allot and issue shares of up to an aggregate nominal value of not exceeding 20% of the share capital of the Company in issue immediately after completion of the Open Offer or if the Open Offer is not completed, on the date of the passing of such ordinary resolution. The Repurchase Mandate will grant to the Directors the authority to repurchase shares up to 10% of the aggregate nominal amount of Adjusted Shares in issue immediately after completion of the Open Offer or if the Open Offer is not completed, on the date of the passing of such ordinary resolution. The Directors have no immediate plan to use the General Mandate and the Repurchase Mandate to issue or repurchase securities of the Company, but consider both mandates to be in the interests of the Company in order to provide flexibility. An explanatory statement containing the relevant information on the repurchase of securities of the Company as required by the Listing Rules is contained in Appendix II to this circular.

SGM

There is set out on pages 114 to 118 of this circular a notice convening the SGM to be held on 17 April 2003 at Aberdeen Room, Level 3, JW Marriot Hotel, Pacific Place, 88 Queensway, Hong Kong at 3:30 p.m., at which resolutions will be proposed for the Shareholders to consider and, if thought fit, to approve the Capital Restructuring, the General Mandate and Repurchase Mandate and resolutions will be proposed for the Independent Shareholders to consider and, if thought fit, to approve the Open Offer, the Whitewash Waiver and the Special Deal.

A form of proxy for use at the SGM is enclosed with this circular. If you are not able to attend the SGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM, that is 3:30 p.m. on 15 April 2003. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

RECOMMENDATIONS

As stated in the paragraph headed "Introduction" in this letter, Messrs. Yang Shiqin, Li Jianhau and Wang Shunian, independent non-executive Directors, are considered sufficiently independent to advise the Independent Shareholders on the terms of the Open Offer, the Special Deal and the Whitewash Waiver. The Independent Board Committee has been appointed to consider and advise the Independent Shareholders on the terms of the Open Offer, the Special Deal and the Whitewash Waiver.

LETTER FROM THE BOARD

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 26 to 27 of this circular which contains the recommendations of the Independent Board Committee to the Independent Shareholders concerning the Open Offer, the Special Deal and the Whitewash Waiver; and (ii) the letter from the Independent Financial Adviser set out on pages 28 to 62 of this circular which contains its advice to the Independent Board Committee and the principal factors and reasons considered by the Independent Financial Adviser in arriving at its advice. Shareholders are strongly advised to consider these letters before deciding to vote in favour of or against the resolutions to be proposed at the SGM.

The Directors consider that the Capital Restructuring, the General Mandate and the Repurchase Mandate are in the interests of the Company and the Shareholders and accordingly recommend all Shareholders who are permitted to vote thereon to vote in favour of the relevant resolutions to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the Appendices to this circular.

Yours faithfully,
By order of the Board
Ezcom Holdings Limited
Kok Kin Hok
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

EZCOM
BRING TECHNOLOGY TO LIFE
EZCOM HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

25 March 2003

To the Independent Shareholders

Dear Sir/Madam,

**PROPOSED CAPITAL RESTRUCTURING
INVOLVING CONSOLIDATION OF SHARES, REDUCTION OF
THE ISSUED SHARE CAPITAL
AND SUBDIVISION OF UNISSUED SHARE CAPITAL**

**PROPOSED OPEN OFFER TO QUALIFYING SHAREHOLDERS ON THE BASIS
OF ASSURED ALLOTMENTS OF FIVE OFFER SHARES
FOR EVERY ADJUSTED SHARE HELD
PAYABLE IN FULL ON APPLICATION**

GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

SPECIAL DEAL

APPLICATION FOR WHITEWASH WAIVER

We refer to the circular dated 25 March 2003 issued to the Shareholders (the “Circular”), of which this letter forms part. Capitalised terms used herein have the meanings ascribed to them in the Circular unless the context otherwise requires.

As the non-executive Directors who are independent of the parties to the transaction, we have been appointed by the Board to advise you as to whether, in our opinion, the respective terms and conditions of the Open Offer, the Special Deal and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders as a whole are concerned.

First Asia Finance Group Limited has been appointed by the Company as the Independent Financial Adviser to advise us regarding the fairness and reasonableness of the respective terms and conditions of the Open Offer, the Special Deal and the Whitewash Waiver. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such opinion, are set out in pages 28 to 62 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 6 to 25 of the Circular and the additional information set out in the Appendices to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the principal factors and reasons considered by the opinion of the Independent Financial Adviser as stated in its letter of advice, we consider that the respective terms and conditions of the Open Offer, the Special Deal and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and its Shareholders. We therefore recommend that the Independent Shareholders vote in favour of the resolutions in relation to the Open Offer, the Special Deal and the Whitewash Waiver to be proposed at the SGM.

Yours faithfully,
Yang Shiqin, Wang Shunian and Li Jianhua
Independent Board Committee

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter from First Asia Finance Group Limited in connection with the Open Offer, the Special Deal and the Whitewash Waiver, which has been prepared for the purpose of inclusion in this circular:

第一亞洲

FIRST ASIA

First Asia Finance Group Limited

Unit 1502, 15th Floor, World Wide House
19 Des Voeux Road Central
Hong Kong

25 March 2003

*To the Independent Board Committee of
Ezcom Holdings Limited*

Dear Sirs,

**PROPOSED OPEN OFFER TO QUALIFYING SHAREHOLDERS ON THE
BASIS OF ASSURED ALLOTMENTS OF FIVE OFFER SHARES FOR
EVERY ADJUSTED SHARE HELD PAYABLE IN FULL ON APPLICATION**

SPECIAL DEAL

APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our engagement under which First Asia Finance Group Limited has been appointed to advise the Independent Board Committee in respect of the Open Offer, the Special Deal and the granting of the Whitewash Waiver, details of which are set out in the letter from the Board (the "Board Letter") contained in the circular of the Company dated 25 March 2003 (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

On 29 January 2003, the Company announced the Open Offer, which is proposed to take place after the Capital Restructuring has become effective, pursuant to which the Company will offer the Offer Shares at a subscription price of HK\$0.10 per Offer Share to Qualifying Shareholders on the basis of five Offer Shares for every Adjusted Share held by Qualifying Shareholders. Based on 5,095,560,175 Shares (equivalent to 101,911,203 Adjusted Shares) in issue as at the Latest Practicable Date, a minimum of 509,556,015 Offer Shares will be offered to Qualifying Shareholders on the Record Date. As the Open Offer would increase the Company's issued share capital by more than 50%, in compliance with Rule 7.24(5) of the Listing Rules the Open Offer will be conditional on the approval by the Independent Shareholders at the SGM.

As at the Latest Practicable Date, the ultimate Controlling Shareholder, together with parties acting in concert with it (including the Underwriter), was interested in a total of 1,699,092,000 Shares, representing approximately 33.3% of the existing issued share capital of the Company. The Underwriter has agreed to underwrite a minimum of 509,556,015 Offer Shares (assuming no outstanding Options or Convertible Notes are exercised on or before the Record Date) and a

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

maximum of 526,528,415 Offer Shares (assuming that all Options are exercised in full, except those held by Mr. Kok, Mr. Lam and Mr. Li, on or before the Record Date). Upon completion of the Open Offer, the Underwriter, the Controlling Shareholder and their concert parties will be interested in between 203,891,040 Adjusted Shares (if all Qualifying Shareholders take up their assured allotments of the Offer Shares) and 543,537,855 Adjusted Shares (if no Offer Shares are taken up by the Qualifying Shareholders other than the Underwriter and its concert parties and no outstanding Options are exercised before the Record Date) representing approximately 33.3% and 88.9% respectively of the enlarged issued share capital of the Company. Accordingly, if as a result of its taking up the Offer Shares under the Underwriting Agreement, the Underwriter and its concert parties acquire shares which increase their aggregate holding of voting rights to 35% or more, the Underwriter and its concert parties would be required to make a general offer for the Shares, Convertible Notes and Options other than those held by the Underwriter and parties acting in concert with it under Rule 26 of the Takeovers Code. Application has been made by the Underwriter to the Executive for the Whitewash Waiver which, if granted, would be subject to the approval of the Independent Shareholders at the SGM on a vote taken by way of a poll. The Executive has indicated that it will grant the Whitewash Waiver subject to the approval of the Independent Shareholders at the SGM by way of a poll.

The Open Offer is expected to raise net proceeds of approximately HK\$49 million, after expenses (assuming no exercise of Options or Convertible Notes on or before the Record Date). The Company plans to apply such net proceeds from the Open Offer to repay approximately HK\$49 million out of the Convertible Notes of HK\$113,914,110 outstanding as at the Latest Practicable Date representing debt owed by the Company to Mr. Kok, a Director and beneficially the ultimate Controlling Shareholder via Anglo Express Group Limited. The partial repayment of the Convertible Notes held by Mr. Kok constitutes a “special deal” under Rule 25 of the Takeovers Code and hence requires consent from the Executive. The Executive has indicated that it will consent to the Special Deal, provided that we, the Independent Financial Adviser, publicly state that in our opinion the terms of the transaction are fair and reasonable and it is approved by the Independent Shareholders at the SGM on a vote taken by way of a poll.

The Independent Board Committee, comprising Messrs. Yang Shiqin, Li Jianhua and Wang Shunian, being independent non-executive Directors, has been formed to advise the Independent Shareholders on the Open Offer, the Special Deal and the Whitewash Waiver. In evaluating the eligibility of Messrs. Yang Shiqin, Li Jianhua and Wang Shunian to be members of the Independent Board Committee to advise the Independent Shareholders in relation to the Open Offer, the Special Deal and the Whitewash Waiver, we have considered the following principal factors:

- (i) Mr. Kok is an executive Director and the chairman of the Company and beneficially wholly owns the Controlling Shareholder and the Underwriter. The Underwriter is the sole underwriter of the Open Offer and the applicant for the Whitewash Waiver. As at the Latest Practicable Date, Mr. Kok was also the holder of Options and Convertible Notes to subscribe for 30,000,000 and 1,139,141,000 Shares, representing approximately 0.6% and 22.4% respectively of the existing issued share capital of the Company. In light of this, we do not consider Mr. Kok eligible for appointment as a member of the Independent Board Committee;
- (ii) Mr. Lam is an executive Director. As at the Latest Practicable Date, Mr. Lam was not a Shareholder but was a holder of Options to subscribe for 20,000,000 Shares representing approximately 0.4% of the existing issued share capital of the Company. Mr. Lam was involved in the discussions about the Open Offer, the Special Deal and the Whitewash Waiver. Due to Mr. Lam’s employment with the Company and his

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

involvement in the discussions, we do not consider Mr. Lam eligible for appointment as a member of the Independent Board Committee;

- (iii) Mr. Lian Song Qing is an executive Director. As at the Latest Practicable Date, Mr. Lian Song Qing was interested in 20,000,000 Shares representing approximately 0.4% of the existing issued share capital of the Company. Mr. Lian Song Qing was involved in the discussions about the Open Offer, the Special Deal and the Whitewash Waiver. As Mr. Lian Song Qing is an employee of the Company and was involved in the discussions, we do not consider Mr. Lian Song Qing as eligible for appointment as a member of the Independent Board Committee;
- (iv) Mr. Hou Ziqiang is a non-executive Director and the chairman of China Kejian Corporation Limited which is a customer of the Company. Mr. Kok is the managing director of China Kejian Corporation Limited and both Mr. Hou Ziqiang and Mr. Kok have significant control over the day to day operations of this company. By virtue of the financial and business relationship between China Kejian Corporation Limited and the Company, we do not consider Mr. Hou Ziqiang as eligible for appointment as a member of the Independent Board Committee; and
- (v) Messrs. Yang Shiqin, Li Jianhua and Wang Shunian, independent non-executive Directors, had declared that they did not have any conflict of interest in respect of the transactions contemplated under the Open Offer, the Special Deal and the Whitewash Waiver up to and including the Latest Practicable Date. During the two years prior to the Latest Practicable Date, none of them had been an employee or agent of or a consultant or adviser to, and did not have any financial or other connections with the Company or any of its controlling or substantial shareholders, or with any of their respective concert parties. Furthermore, as at the Latest Practicable Date, Messrs. Yang Shiqin, Li Jianhua and Wang Shunian did not directly or indirectly hold any Shares, Options or Convertible Notes in the Company or in any company controlled by it or in any substantial shareholder of the Company. Therefore, we consider Messrs. Yang Shiqin, Li Jianhua and Wang Shunian to be eligible as members of the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and facts supplied to us by the Company and have assumed that all such information and facts and any representations made to us are true, accurate and complete at the time when they were made and continue to be so as at the date hereof. We have also assumed that all information, representations and opinions contained or referred to in the Circular are true and accurate and have relied on them. We have sought and received confirmation from the Directors that all relevant information has been supplied to us and that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading.

The Directors have jointly and severally accepted full responsibility of the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries that, to the best of their knowledge and belief, there are no other facts not contained in the Circular the omission of which would make any statement in the Circular untrue, inaccurate or misleading. We have no reason to suspect that any material information has been withheld by the Company or that any information supplied to us is misleading.

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

We consider we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted an independent investigation into the business and affairs of or the future prospects, of the Group.

In formulating our opinion, we have not considered the taxation implications on Shareholders in relation to the subscription for, holding or disposal of the Offer Shares or otherwise, since these are particular to their individual circumstances. It is emphasised that we will not accept responsibility for any tax effects on, or liabilities of any person resulting from the subscription for, holding or disposal of the Offer Shares or the exercise of any rights attaching thereto or otherwise. In particular, Shareholders subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations relating to the Open Offer, the Special Deal and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

1. Background and reasons of the Open Offer

(a) *Business review of the Group*

The Group is principally engaged in the trading of mobile phones, parts and components in Asia. As stated in the latest published interim report of the Company for the six months ended 31 October 2002, during the period the Group disposed of its entire 100% interest in a loss-making company, Lamex China Limited (“Lamex China”), which had been engaged in manufacturing and trading of office furniture and building materials. The Directors have confirmed that the disposal of Lamex China had enabled the Group to better deploy its corporate resources to focus on and develop its mobile telecommunications business. We agree with the Directors that the disposal of Lamex China had enabled the Group to better deploy its corporate resources to focus on and develop its mobile telecommunications business based on the fact that the same management of the Group would normally have more time, resources and manpower to manage one type of business rather than two different types of businesses. In addition, as stated in the latest published interim report of the Company for the six months ended 31 October 2002, the Group completed the acquisition of a 33.98% interest in Ezze Mobile Tech., Inc. (“Ezze Mobile”), a Korea-based mobile telecommunications solutions provider and equipment manufacturer. The Directors have confirmed that the acquisition of Ezze Mobile was completed on 8 November 2002. As stated in the Company’s interim report for the six months ended 31 October 2002, Ezze Mobile posted revenues of approximately 58 billion Korean Won (approximately HK\$355 million, for illustration purpose only, at the rate of 1 Korean Won to HK\$0.006121) and net profits of approximately 3.6 billion Korean Won (approximately HK\$22 million, for illustration purpose only, at the rate of 1 Korean Won to HK\$0.006121) for the year ended 31 December 2001. As the acquisition of Ezze Mobile was completed on 8 November 2002, its results were not reflected in the Company’s interim report for the six months ended 31 October 2002. The disposal of the Group’s entire interest in Lamex China and the acquisition of a 33.98% interest in Ezze Mobile marked the Group’s crucial transition into a full-service mobile telecommunications solutions provider from its previous business as an office furniture manufacturer and distributor.

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

(b) *Financial review of the Group*

An extract from the unaudited consolidated accounts of the Group for the six months ended 31 October 2002 is set out in Appendix I to the Circular.

As disclosed in the unaudited consolidated accounts of the Group for the six months ended 31 October 2002, the turnover of the Group for the period amounted to approximately HK\$1,577 million which represented an increment of approximately 3.6 times as compared with the corresponding period in 2001. As illustrated in the table below, the Group's major revenue, for the six-month period 31 October 2002, was generated from the trading of mobile phones, parts and components:

| For the six months ended 31 October | 2002 | | 2001 | |
|---|----------------|-------|----------------|-------|
| | (HK\$ million) | % | (HK\$ million) | (%) |
| Manufacturing and trading of office furniture and building materials | 151.2 | 9.6 | 283.3 | 82.7 |
| Supply of kitchen cabinets | 17.8 | 1.1 | 59.1 | 17.3 |
| Trading of mobile phones, parts and components | 1,407.8 | 89.3 | - | - |
| Total turnover | 1,576.8 | 100.0 | 342.4 | 100.0 |

Based on the latest audited profit and loss account of Ezcom Technology Limited ("Ezcom Tech"), a 90% interest subsidiary of the Company, principally engaging in the trading of mobile phones, parts and components, Ezcom Tech's turnover for the two years ended 31 March 2002 and 31 March 2001 was approximately HK\$1,478 million and HK\$996 million respectively represented an increase of approximately 48.3% for the year ended 31 March 2002. In addition, as disclosed in the Company's interim report for the six months ended 31 October 2002, the unaudited turnover generated from the trading of mobile phones, parts and components amounted to approximately HK\$1,407.8 million represented approximately 89.3% of the total turnover for the six months ended 31 October 2002. As disclosed in the Company's annual report for the year ended 30 April 2002, turnover generated from trading of mobile phones, parts and components amounted to approximately HK\$905.8 million represented approximately 61.2% of the total turnover for the year ended 30 April 2002. The Directors confirm that the above turnover of trading of mobile phones, parts and components were all generated from the PRC market and the Directors anticipate that the future turnover of trading of mobile phones, parts and components will mainly be generated from the PRC market. The Directors consider that the focus of the business of the Group is in the PRC mobile communication market which was the largest mobile communication market in terms of mobile phone subscribers in the world at the end of 2002 and was also one of the fastest growing mobile communication market in terms of mobile phone subscribers in the world in 2002. For information only, based on the information published by the Ministry of Information Industry of the PRC at the website: www.mii.gov.cn, the number of mobile phone subscribers in the PRC increased by approximately 61.39 million subscribers (approximately 42% increase) from approximately 144.61 million subscribers at the end of 2001 to approximately 206 million subscribers at the end of 2002 and the PRC was the largest mobile communication market in terms of mobile phone subscribers in the world at the end of 2002. In view of the above, in particular 1) turnover from the trading of

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

mobile phones, parts and components focusing on the PRC market accounted for a substantial portion of the Group's turnover; 2) the Directors anticipate that the future turnover of trading of mobile phones, parts and components will mainly be generated from the PRC market; 3) the PRC was the largest mobile communication market in terms of mobile phone subscribers at the end of 2002 and was also one of the fastest growing mobile communication market in terms of mobile phone subscribers in the world in 2002; and 4) Ezcom Tech's past year's turnover growth which evidenced a good track record, we consider that there is a potential for growth opportunities in the Group's telecommunication business.

(c) Gearing ratio of the Group before the Open Offer

As disclosed in the published audited consolidated accounts of the Company for the year ended 30 April 2002, the audited consolidated net tangible asset value of the Group ("NTAV") and audited consolidated NTAV per Adjusted Share as at 30 April 2002 amounted to approximately HK\$178.6 million and HK\$1.753 respectively. Taking into account the unaudited profit for the six months ended 31 October 2002, the Group's unaudited consolidated NTAV and unaudited consolidated NTAV per Adjusted Share after the completion of the Capital Reorganisation and before the Open Offer amounted to approximately HK\$205.2 million and approximately HK\$2.014 respectively.

Furthermore, as disclosed in the section headed "6. Indebtedness statement" in Appendix I on page 101 of the Circular, as at close of business on 31 January 2003, total debts amounted to approximately HK\$289.6 million, comprising secured trust receipt loans of approximately HK\$45.0 million, bills payable of approximately HK\$29.2 million, secured bank loans of approximately HK\$20.1 million and unsecured Convertible Notes of approximately HK\$195.3 million. The Group's gearing ratio (ratio of total debt of approximately HK\$289.6 million to unaudited consolidated NTAV before the Open Offer of approximately HK\$205.2 million) would be approximately 141.1% before completion of the Open Offer.

As at 31 January 2003 a substantial portion of the Group's total outstanding debts were attributable to the Convertible Notes, representing approximately 67.44% of the total debts outstanding. As at 31 January 2003, the Convertible Notes held by Mr. Kok and Mr. Li represented approximately 39.34% and 28.10% of the Group's outstanding total debts respectively. As illustrated below, as at 31 January 2003, the Convertible Notes held by Mr. Kok amounted to approximately HK\$113.9 million:

| | Mr. Kok (HK\$) | Mr. Li (HK\$) | Total (HK\$) |
|--|---------------------------|--------------------------|---------------------------|
| Convertible Notes repayable on or before 7 November 2004 | 37,000,000 | – | 37,000,000 |
| Convertible Notes repayable on or before 27 March 2004 | 76,914,110 | 81,390,593 | 158,304,703 |
| Total Convertible Notes (as at 31 January 2003) | <u>113,914,110</u> | <u>81,390,593</u> | <u>195,304,703</u> |

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

As illustrated below, the Convertible Notes held by Mr. Kok represented approximately 39.34% of total debt:

As at 31 January 2003

| | |
|--|---------------------------------|
| Convertible Notes held by Mr. Kok | HK\$113,914,110 |
| Total outstanding Convertible Notes | HK\$195,304,703 |
| Total debt | Approximately HK\$289.6 million |
| Convertible Notes held by Mr. Kok to total debt | 39.34% |
| Total Convertible Notes to total debt | 67.44% |
| Unaudited consolidated NTAV before the Open Offer | Approximately HK\$205.2 million |
| Gearing ratio (total debt to unaudited consolidated NTAV before the Open Offer) | 141.1% |

(d) Rationale of the Open Offer

The Directors consider that in order to improve the Group's present financial position, it is prudent for the Group to lower its existing high gearing ratio of approximately 141.1%.

As mentioned in the Board letter, the net proceeds to be derived from the Open Offer, after expenses, are estimated to be approximately HK\$49 million (assuming no exercise of outstanding Options or Convertible Notes on or before the Record Date). The Directors intend to apply all the net proceeds of the Open Offer, estimated at approximately HK\$49 million, to repay part of the Convertible Notes (repayable on or before 27 March 2004) of approximately HK\$76.9 million held by Mr. Kok. Therefore, after the proposed partial repayment of approximately HK\$49 million, the Convertible Notes (repayable on or before 27 March 2004) held by Mr. Kok would amount to approximately HK\$27.9 million and total Convertible Notes held by Mr. Kok would amount to approximately HK\$64.9 million.

As mentioned in the foregoing, the Group is focusing on the business of trading mobile phones, parts and components after the gradual disposal of its operations in the trading of furniture and building materials. In view of the anticipated expansion in the business of trading mobile phones, parts and components, the Group's demand for trade financing from banks will increase. We note that, just like other trading companies, as the Group purchases most of its trading stocks by letters of credit, the anticipated growth in sales will also trigger an increase in the demand for trade financing facilities, such as letters of credit, which are drawn by the banks on each individual purchase and hence different to usual revolving loans. We have discussed with the management of the Company and the Directors have confirmed that as the Group is principally engaged in the trading business, banks can be reluctant to offer facilities to it due to lack of collateral, especially in the case of a company with high gearing ratio and high exposure to a single largest creditor. The Company has put a lot of effort in improving its creditworthiness and building up commercial relationships with the banks. By means of the Open Offer, although there will not be additional collateral for the Group to obtain trade financing facilities, the financial position of the Group will be improved and the gearing ratio of the Group will be reduced, which

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

will definitely improve the Group's creditworthiness. We consider that it is reasonable and prudent for the Group to reduce the gearing ratio as one of the major factors for the banks in determining the amount and the terms of the trade finance facilities depends on whether Group has a healthy financial position to which the gearing ratio is an important indicator.

Furthermore, the Directors believe that in common with other traders in the industry, it is commercially prudent for the Group to finance its increasing trading volume with short term trade finance arrangements which are more flexible. As such, the Directors intend to reduce the Group's overall indebtedness without harming its relationships with the banks. We are of the view that prepayment of bank loans can adversely affect the commercial relationships between the Group and the banks. Moreover the banks will charge one-off penalties for prepayments. As at 31 January 2003, the Convertible Notes held by Mr. Kok represented approximately 39.34% of the total debts of approximately HK\$289.6 million. In order to maintain the Group's commercial relationships with its banks and to lower its existing high gearing ratio, the Directors consider that repayment to the Group's single largest creditor and the Controlling Shareholder, Mr. Kok, would be to the benefit of the Company and its Shareholders as a whole. We consider that it is in the interests of the Company and the Independent Shareholders as a whole to first repay part of the Convertible Notes held by Mr. Kok in order to maintain the Group's commercial relationships with its banks as one of the Group's sources of funds arise from trade financing and that it is prudent to lower the Group's existing high gearing ratio in order to improve its creditworthiness with the banks due to the principal activities of the Group are mainly trading in nature and the Group's dependence on the support from the banks in granting trade finance facilities to the Group.

Accordingly, we consider that the Open Offer provides an opportunity for the Group to raise finance by way of equity to strengthen its capital base and to reduce its overall indebtedness. In view of the foregoing, we consider that the Open Offer will be able to lower the Group's overall indebtedness, and therefore is in the interest of the Company and its Independent Shareholders as a whole.

(e) Other financing alternatives

As advised by the Directors, they have considered alternative means of financing other than an open offer, including private placements and rights issues. Private placements of new shares, rights issues and open offers are common means of equity financing. The Directors consider that a private placement may not be appropriate as placement of shares by its nature excludes existing Shareholders, and at the same time, results in significant dilution of existing Shareholders' interests. Issue of shares by way of open offer or rights issue offer all the shareholders an equal opportunity to participate in the enlargement of the capital base of the company, and allows them to maintain their proportionate interests in the company and participate in the future growth of the company. As compared with an open offer, a rights issue provides additional benefit to shareholders in that it allows shareholders who do not want to participate in the cash call of the company to dispose of their entitlements in the market so as to compensate themselves for the dilution effect brought by the increase in the share capital. However, having regard to the relatively thin trading of the Shares and the Subscription Price, the Directors do not expect there to be any strong

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

or active market in any nil-paid shares which would have been provisionally allotted to Shareholders had the present exercise been a rights issue. Therefore, the Directors decided to proceed with the Open Offer instead of a rights issue and avoid the additional administrative burden of providing for trading in nil-paid rights.

In this regard, we consider that the Open Offer is an acceptable and equitable means to raise funds for the Group under the current circumstance to lower the Group's overall indebtedness and to accommodate the Group's plan to expand the Group's business through trade financing.

2. Principal terms of the Open Offer

Subscription Price

Subject to the fulfilment of the conditions of the Open Offer referred to in the Circular, Qualifying Shareholders will be entitled to apply for Offer Shares with assured allotments of five Offer Shares for every Adjusted Share held on the Record Date, at the Subscription Price of HK\$0.10, payable in full on application.

For the purpose of assessing the issue price level of the Offer Shares, we tabulate below the highest and the lowest closing prices of the Shares traded on the Stock Exchange in each of the twelve months from March 2002 to the Latest Practicable Date (the "Trading Period"):

| Month | Highest closing price (HK\$) | Lowest closing price (HK\$) | Monthly trading volume (million) |
|--|------------------------------------|-----------------------------------|---|
| 2002 | | | |
| March | 0.136 | 0.119 | 637.6 |
| April | 0.160 | 0.125 | 584.0 |
| May | 0.151 | 0.128 | 451.9 |
| June | 0.131 | 0.101 | 123.5 |
| July | 0.113 | 0.065 | 143.6 |
| August | 0.097 | 0.066 | 76.6 |
| September | 0.095 | 0.078 | 29.3 |
| October | 0.089 | 0.062 | 14.2 |
| November | 0.074 | 0.060 | 23.8 |
| December | 0.065 | 0.055 | 16.2 |
| 2003 | | | |
| January | 0.060 | 0.035 | 45.3 |
| February | 0.031 | 0.026 | 49.0 |
| March (up to the Latest Practicable Date) | 0.030 | 0.023 | 33.0 |

During the Trading Period, the Shares were traded on the Stock Exchange within a range of a highest closing price of HK\$0.160 on 23 April 2002 to a lowest closing price of HK\$0.023 on 21 March 2003.

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

As illustrated in the table above, the liquidity of the Shares during the Trading Period had been generally low with the highest volume of approximately 637.6 million Shares in March 2002 and the lowest volume of approximately 14.2 million Shares in October 2002 (without taking into account March 2003 as it has less than a month of trading) representing approximately 12.5% and 0.3% respectively of the Company's existing shares in issue.

Given the generally thin trading volume of the Shares, it would be in our opinion difficult for the Company to raise equity funds on a fully underwritten basis at a price which does not represent a substantial discount to the market price of the Shares.

The Subscription Price of HK\$0.10 per Offer Share represents:

- (a) a discount of approximately 96.2% to the closing price of HK\$2.60 per 50 Shares as quoted on the Stock Exchange on 16 January 2003, the last day on which the Shares were traded immediately preceding the publication of the Announcement;
- (b) a discount of approximately 96.4% to the average closing price of approximately HK\$2.815 per 50 Shares as quoted on the Stock Exchange on the last ten trading days up to and including 16 January 2003;
- (c) a discount of approximately 91.3% to the closing price of HK\$1.15 per 50 Shares as quoted on the Stock Exchange on 21 March 2003, the Latest Practicable Date;
- (d) a discount of approximately 80.6% to the theoretical ex-entitlements price of approximately HK\$0.517 per Adjusted Share based on closing price of HK\$2.60 per 50 Shares as quoted on the Stock Exchange on 16 January 2003;
- (e) a discount of approximately 81.9% to the theoretical ex-entitlements price of approximately HK\$0.5525 per Adjusted Share based on average closing price of approximately HK\$2.815 per 50 Shares as quoted on the Stock Exchange on the last ten trading days up to and including 16 January 2003;
- (f) a discount of approximately 63.6% to the theoretical ex-entitlements price of approximately HK\$0.275 per Adjusted Share based on closing price of HK\$1.15 per 50 Shares as quoted on the Stock Exchange on 21 March 2003, the Latest Practicable Date;
- (g) a discount of approximately 95.0% to the unaudited consolidated net tangible asset value of approximately HK\$2.014 per Adjusted Share before completion of the Open Offer (based on the audited consolidated NTAV as at 30 April 2002 and the unaudited profit for the six months ended 31 October 2002, and assuming the Capital Restructuring has become effective and no outstanding Options or Convertible Notes are exercised on or before the Record Date); and

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

- (h) a discount of approximately 76.0% to the pro forma unaudited adjusted consolidated NTAV of approximately HK\$0.416 per Adjusted Share upon completion of the Capital Restructuring and the Open Offer (based on the audited NTAV as at 31 December 2002 and the unaudited profit for the six months ended 31 October 2002, and assuming no outstanding Options or Convertible Notes are exercised on or before the Record Date).

The Directors consider that the Subscription Price is in the interests of the Company and the Shareholders as a whole. It was determined after arm's length negotiation between the Company and the Underwriter based on their respective views of the financial position and prospects of the Company.

We have reviewed the terms of 38 rights issues and 5 open offers announced by companies listed on the main board and the Growth Enterprise Market of the Stock Exchange from 1 January 2002 to the Latest Practicable Date for our analysis. Brief details of these issues are set out as follows:

| Company name (Stock code) | Date of the announcement of the issue (the "Press Announcement") | Subscription price (the "Price") per share HK\$ | Discount of the Price to closing price of shares on the last trading day prior to the Press Announcement % | Discount of the Price to theoretical ex-rights/ ex-entitlements of shares based on the closing price of shares on the last trading day prior to the Press Announcement % |
|--|---|--|---|---|
| Rights issue | | | | |
| Easyknit International Holdings Limited (1218) | 4 January 2002 | 0.08 | 27.27 | 15.79 |
| Kwong Hing International Holdings (Bermuda) Limited (1131) | 8 January 2002 | 0.04 | 33.33 | 20.00 |
| Wang On Group Limited (1222) | 16 January 2002 | 0.024 | 79.66 | 39.50 |
| Digital World Holdings Limited (109) | 17 January 2002 | 0.015 | 85.00 | 31.82 |

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

| Company name (Stock code) | Date of the announcement of the issue (the “Press Announcement”) | Subscription price (the “Price”) per share <i>HK\$</i> | Discount of the Price to closing price of shares on the last trading day prior to the Press Announcement % | Discount of the Price to theoretical ex-rights/ ex-entitlements of shares based on the closing price of shares on the last trading day prior to the Press Announcement % |
|---|--|--|--|---|
| Grandmass Enterprise Solution Limited (8108) | 21 January 2002 | 0.032 | 48.39 | 23.81 |
| Bossini International Holdings Limited (592) | 24 January 2002 | 0.46 | 2.13 | 2.13 |
| Wo Kee Hong (Holdings) Limited (720) | 1 February 2002 | 0.088 | 84.10 | 51.40 |
| Shimao China Holdings Limited (649) | 5 February 2002 | 0.65 | 7.14 | 4.41 |
| New World Cyberbase Limited (276) | 20 February 2002 | 0.05 | 26.47 | 19.35 |
| Applied (China) Limited (472) | 27 February 2002 | 0.073 | 27.00 | 15.61 |
| China Star Entertainment Limited (326) | 20 March 2002 | 0.05 | 45.05 | 35.06 |
| Shun Tak Holdings Limited (242) | 21 March 2002 | 1.00 | 17.36 | 14.38 |
| Intcera High Tech Group Limited (8041) | 28 March 2002 | 0.10 | 66.67 | 57.08 |
| Playmates Interactive Entertainment Limited (now known as Playmates Holdings Limited) (635) | 28 March 2002 | 0.26 | 11.86 | 8.13 |

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

| Company name (Stock code) | Date of the announcement of the issue (the “Press Announcement”) | Subscription price (the “Price”) per share <i>HK\$</i> | Discount of the Price to closing price of shares on the last trading day prior to the Press Announcement <i>%</i> | Discount of the Price to theoretical ex-rights/ ex-entitlements of shares based on the closing price of shares on the last trading day prior to the Press Announcement <i>%</i> |
|--|--|--|---|--|
| Vision Century Corporation Limited (535) | 28 March 2002 | 0.42 | 25.00 | 17.65 |
| AV Concept Holdings Limited (595) | 3 April 2002 | 0.26 | 10.34 | 7.14 |
| B-Tech (Holdings) Limited (now known as Heritage International Holdings Limited) (412) | 10 April 2002 | 0.084 | 79.00 | 25.48 |
| Gold Wo International Holdings Limited (90) | 30 April 2002 | 0.016 | 73.33 | 64.44 |
| Lai Fung Holdings Limited (1125) | 9 May 2002 | 0.10 | 45.05 | 39.39 |
| eForce Holdings Limited (943) | 14 May 2002 | 0.127 | 10.56 | 7.30 |
| China United Holdings Limited (273) | 17 May 2002 | 0.02 | 96.00 | 68.57 |
| Peace Mark (Holdings) Limited (304) | 6 June 2002 | 0.18 | 66.67 | 40.00 |
| Quam Limited (952) | 11 June 2002 | 0.015 | 50.00 | 38.52 |
| China Strategic Holdings Limited (235) | 15 July 2002 | 0.15 | 25.74 | 18.48 |

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

| Company name (Stock code) | Date of the announcement of the issue (the “Press Announcement”) | Subscription price (the “Price”) per share <i>HK\$</i> | Discount of the Price to closing price of shares on the last trading day prior to the Press Announcement % | Discount of the Price to theoretical ex-rights/ ex-entitlements of shares based on the closing price of shares on the last trading day prior to the Press Announcement % |
|---|--|--|--|---|
| Easyknit International Holdings Limited (1218) | 17 July 2002 | 0.12 | 73.33 | 40.74 |
| Sing Pao Media Group Limited (8010) | 22 July 2002 | 0.40 | 66.67 | 47.37 |
| Top Glory International Holdings Limited (268) | 25 July 2002 | 0.35 | 23.08 | 19.35 |
| China Star Entertainment Limited (326) | 13 August 2002 | 0.625 | 43.18 | 20.18 |
| UDL Holdings Limited (620) | 4 October 2002 | 0.025 | 50.00 | 40.48 |
| e-Kong Group Limited (524) | 7 October 2002 | 0.12 | 40.00 | 25.00 |
| iAsia Technology Limited (now known as Value Convergence Holdings Limited) (8101) | 12 October 2002 | 0.10 | (5.26) | (42.86) |
| Star Cruises Limited (678) | 15 October 2002 | 1.95 | 27.78 | 25.29 |
| New Century Group Hong Kong Limited (234) | 17 October 2002 | 0.30 | 42.31 | 32.84 |
| Harmony Asset Limited (428) | 11 November 2002 | 0.02 | 62.96 | 40.48 |
| Hi Sun Group Limited (818) | 15 November 2002 | 0.63 | 3.08 | 1.56 |

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

| Company name (Stock code) | Date of the announcement of the issue (the “Press Announcement”) | Subscription price (the “Price”) per share <i>HK\$</i> | Discount of the Price to closing price of shares on the last trading day prior to the Press Announcement % | Discount of the Price to theoretical ex-rights/ ex-entitlements of shares based on the closing price of shares on the last trading day prior to the Press Announcement % |
|--|--|--|--|---|
| Styland Holdings Limited (211) | 25 November 2002 | 0.1 | 79.17 | 55.89 |
| Rainbow International Holdings Limited (8079) | 27 November 2002 | 0.06 | 92.21 | 85.54 |
| Hon Kwok Land Investment Company, Limited (160) | 12 February 2003 | 1.00 | 32.43 | 16.11 |
| Open Offer | | | | |
| Winfoong International Limited (63) | 21 January 2002 | 0.195 | (17.47) | (8.03) |
| HiNet Holdings Limited (now known as REXCAPITAL International Holdings Limited) (155) | 2 April 2002 | 0.018 | 18.18 | 13.04 |
| Winsan (China) Investment Group Company Limited (85) | 24 April 2002 | 0.115 | 4.96 | 3.36 |
| Bestway International Holdings Limited (718) | 31 May 2002 | 0.022 | 12.00 | 6.38 |
| Ecopro Hi-Tech Holdings Limited (now known as Starbow Holdings Limited (397)) | 27 June 2002 | 0.01 | 95.00 | 67.86 |
| Average | | | 49.55 | 26.88 |
| The Company (312) | 29 January 2003 | 0.10 | 96.15 | 80.66 |

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed the terms of 38 rights issues and 5 open offers as stated above instead of reviewing only the terms of open offers because we are of the view that open offers and rights issues are directly comparable fund raising exercises. We list below the comparable features, and one and only one different feature (nil-paid rights trading) between a rights issue and an open offer:

- a. both offer to qualifying holders of securities assured rights to subscribe for securities in the issuer. The only material commercial difference between a rights issue and an open offer is that in an open offer, the rights to take up shares is not transferable. In a rights issue, it is transferable and, if the price of the rights issue is considered to be attractive by the market, the nil-paid rights may be sellable, thus, the existence of a nil-paid trading;
- b. both offer to qualifying holders of securities assured rights to acquire up to a specific number of new securities on a pro rata basis;
- c. both require payment on application/acceptance;
- d. neither requires qualifying holding to take up their entitlements;
- e. both have the same dilution effect (if any) on the existing shareholding of the issuer;
- f. although nil-paid rights in a rights issue are transferable, and those rights offer their owners a right to subscribe, the seller of the right loses the right to subscribe for securities and thus loses any value of the underlying shares and the price of the nil-paid rights cannot therefore be relevant to the subscription price for those who take up shares. A person who transfers his nil-paid rights may or may not receive value for that transfer but that value is irrelevant to pricing of the issue for the very reason that a seller of the right cannot participate in the issue in respect of the right;
- g. both usually issue with a subscription price at a discount to market price (to make it attractive to market);
- h. the calculation of ex-entitlement/rights price in a rights issue and an open offer are the same;
- i. the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) requirements relating to rights issues and open offers are the same including their treatment in the Listing Rules which generally requires a prospectus and an underwriting agreement; and
- j. the identity between rights issue and open offer is also reflected in warrant instruments in which, typically, the adjustment provisions relating to open offers are identical to those relating to rights issues. In particular adjustment provisions in warrants make no distinction or allowance for the fact that in a rights issue nil-paid rights may have a resale value.

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

Therefore, based on the above, we consider that it is fair and reasonable to review the terms of rights issues and open offers together for our analysis.

We note that with regard to these 38 rights issues and 5 open offers,

- (i) the Prices demonstrated a premium/discount ranging from premium of approximately 5.26% to discount of approximately 96.00% to the closing prices on the last trading day prior to the Press Announcements (the “Closing Price Range”);
- (ii) the Prices demonstrated a premium/discount ranging from premium of approximately 42.86% to discount of approximately 85.54% to the theoretical ex-rights/ex-entitlements prices per share based on the last trading day prior to the Press Announcements (the “Theoretical Range”);
- (iii) the average discount of the Prices to the closing prices on the last trading day prior to the Press Announcements was approximately 49.55%; and
- (iv) the average discount of the Prices to the ex-rights/ex-entitlements prices per share based on the last trading day prior to the Press Announcements was approximately 26.88%.

We also note that the discount of the Subscription Price to the closing price of the Shares on the last trading day prior to the Announcement is slightly higher than the top of the Closing Price Range, by 0.15%. In our opinion, we consider such a discount an incentive to attract participation by Qualifying Shareholders in the Open Offer. Furthermore, we note that the discount of the Subscription Price to the theoretical ex-entitlements price based on the closing price of the Shares on the last trading day prior to the Announcement falls within the Theoretical Range. Lastly, we note that the discount of the Subscription Price to the closing price of the Shares on the last trading day prior to the Announcement and the discount of the Subscription Price to the theoretical ex-entitlements price based on the closing price of the Shares on the last trading day prior to the Announcement are higher than the respective average discount of the above 38 rights issues and 5 open offers.

As referred to the sub-paragraph headed “Subscription Price” under the section “2. Principal terms of the Open Offer”, the Subscription Price represents a discount of approximately 95.0% to the unaudited consolidated NTAV per Adjusted Share before the Open Offer of approximately HK\$2.014 and a discount of approximately 76.0% to the pro forma unaudited adjusted consolidated NTAV per Adjusted Share after the Open Offer of approximately HK\$0.416. We consider that the Open Offer offers a good opportunity for the Independent Shareholders to continue investing in the Company at an attractive price level when compared with the Group’s unaudited consolidated NTAV of approximately HK\$205.2 million.

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

We note the current sluggish stock market and that the current market outlook is worse than that of previous years in view of the continuing economic slowdown in the United States of America, Europe and most of Asia as well as the threat of hostilities in Iraq and North Korea. Although the Subscription Price is slightly higher than the top of the Closing Price Range by 0.15% and is on the high end of the Theoretical Range, taking into account (i) the current market conditions; (ii) the need to lower the Group's gearing ratio in order to obtain better terms on trade financing as it is reasonable and prudent for the Directors to reduce the gearing ratio of the Group since one of the major factors for the banks in determining the amount of trade finance facilities and the terms depends on whether the lender in question has a healthy financial position to which the gearing ratio is an important indicator; (iii) the Open Offer enables all Qualifying Shareholders to participate in the enlargement of the Company's capital base; (iv) the discount of the Subscription Price to the theoretical ex-entitlements price based on the closing price of the Shares on the last trading day prior to the Announcement falls within the Theoretical Range; and (v) the Subscription Price is at an attractive price level when compared with the Group's unaudited consolidated NTAV and is fair and reasonable, we consider that the Subscription Price is acceptable so far as the Independent Shareholders are concerned.

We therefore consider that the Open Offer is in the interests of the Company and the Independent Shareholders as a whole as the Open Offer is an equitable method to raise new equity capital for the Company and that the terms of the Open Offer are fair and reasonable as all the Qualifying Shareholders can choose to participate in the Open Offer.

Other principal terms of the Open Offer

The Open Offer is conditional upon, among other things, certain conditions as stated in the Letter from the Board, which include: (i) the approval of the Capital Restructuring by Shareholders at the SGM and the Capital Restructuring becoming effective thereafter; (ii) the approval of the Open Offer by the Independent Shareholders at the SGM. All non-Independent Shareholders will be required to abstain from voting; and (iii) Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Offer Shares.

In addition, all Shareholders and other potential investors should be aware that the Open Offer will not proceed if the Underwriter exercises its right to terminate the Underwriting Agreement in accordance with the terms contained therein, the particulars of which are set out in the section headed "Termination of the Underwriting Agreement" in the Letter from the Board.

As such, any Shareholder or any other person dealing in the Shares up to the date on which all the conditions of the Open Offer are fulfilled shall bear the risk that the Open Offer may not become unconditional or may not proceed.

3. Underwriting arrangement for the Open Offer

As at the Latest Practicable Date, the Company had outstanding 5,095,560,150 Shares, 239,724,000 outstanding Options and Convertible Notes which are convertible into 239,724,000 Shares (representing approximately 4.7% of the existing issued share capital of the Company) and 1,953,047,030 Shares (representing approximately 38.3% of the existing issued share capital of the Company) respectively at their respective conversion prices. As at the Latest Practicable Date, the Controlling Shareholder together with parties acting in concert with it in aggregate held 1,699,092,000 Shares, representing approximately 33.3% of the Company's existing issued share capital, Options to subscribe for 30,000,000 Shares representing approximately 0.6% of the Company's existing issued share capital and Convertible Notes to subscribe for 1,139,141,100 Shares representing approximately 22.4% of the Company's existing issued share capital in aggregate. The Controlling Shareholder and Mr. Kok have irrevocably undertaken to the Company that the Shares directly or indirectly and beneficially owned by them will remain directly and indirectly and beneficially owned by them from 30 January 2003 to 31 May 2003 and that they will not exercise any Options or Convertible Notes before such date. Mr. Lam, being a Director and an Option holder, who is entitled to subscribe for 20,000,000 Shares (representing approximately 0.4% of the Company's existing issued share capital), and Mr. Li being a director of a subsidiary of the Company and holder of Options and Convertible Notes to subscribe for or convert into 20,000,000 Shares (representing approximately 0.4% of the Company's existing issued share capital) and 813,905,930 Shares (representing approximately 16.0% of the Company's existing issued share capital) respectively, have given their respective irrevocable undertakings to the Company not to exercise or convert their Options and/or Convertible Notes on or before 31 May 2003.

Subject to the fulfilment of the conditions contained in the Underwriting Agreement, a minimum of 509,556,015 Offer Shares (assuming no outstanding Options or Convertible Notes are exercised before the Record Date) and a maximum of 526,528,415 Offer Shares (assuming full exercise of the outstanding Options except those held by Mr. Kok, Mr. Lam and Mr. Li), both representing approximately 83.3% of the enlarged issued share capital of the Group after completion of the Open Offer, will be underwritten by the Underwriter.

We have reviewed the Underwriting Agreement, in which there is no underwriting commission payable to the Underwriter, and consider that the principal terms and provisions of the Underwriting Agreement are on normal commercial terms and in line with market practice in Hong Kong.

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

4. Possible dilution effect on the Shareholders

For those Independent Shareholders who are also Qualifying Shareholders and depending on the extent to which they successfully apply for the Offer Shares, their attributable interests in the Company will be diluted after completion of the Open Offer, with a maximum dilution in shareholding of approximately 83.3%.

The potential dilution effect on the shareholding of Shareholders after completion of the Open Offer is illustrated below:

Scenario 1:

All Qualifying Shareholders except the Controlling Shareholder, apply for all the Offer Shares pro-rata to their existing shareholding and assuming no outstanding Options or Convertible Notes are exercised on or before the Record Date:

| | Existing shareholding | | Offer Shares | Enlarged shareholding | |
|---|----------------------------------|--------------|-------------------------|----------------------------------|--------------|
| | <i>Adjusted</i> | | | <i>Adjusted</i> | |
| | <i>Shares</i> | <i>%</i> | | <i>Shares</i> | <i>%</i> |
| Controlling Shareholder and parties in concert | 33,981,840 | 33.3 | – | 33,981,840 | 5.6 |
| Underwriter | – | 0.0 | 169,909,200 | 169,909,200 | 27.7 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Subtotal | 33,981,840 | 33.3 | 169,909,200 | 203,891,040 | 33.3 |
| Public | 67,929,363 | 66.7 | 339,646,815 | 407,576,178 | 66.7 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total | <u>101,911,203</u> | <u>100.0</u> | <u>509,556,015</u> | <u>611,467,218</u> | <u>100.0</u> |

As shown in the table above, there will be no dilution effect under Scenario 1. Mr. Kok, the ultimate Controlling Shareholder and the owner of the Underwriter will be interested in approximately 33.3% of the enlarged issue share capital of the Company.

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| LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER |
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Scenario 2:

No Qualifying Shareholder applies for any of the Offer Shares and assuming no outstanding Options or Convertible Notes are exercised on or before the Record Date:

| | Existing shareholding Adjusted Shares | % | Offer Shares | Enlarged shareholding Adjusted Shares | % |
|---|--|--------------|-------------------------|--|--------------|
| Controlling Shareholder and parties in concert | 33,981,840 | 33.3 | – | 33,981,840 | 5.6 |
| Underwriter | – | 0.0 | 509,556,015 | 509,556,015 | 83.3 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Subtotal | 33,981,840 | 33.3 | 509,556,015 | 543,537,855 | 88.9 |
| Public | 67,929,363 | 66.7 | – | 67,929,636 | 11.1 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total | <u>101,911,203</u> | <u>100.0</u> | <u>509,556,015</u> | <u>611,467,218</u> | <u>100.0</u> |

As shown in the table above, under Scenario 2, if no Qualifying Shareholder applies for the Offer Shares, existing public Shareholders will have their percentage shareholding in the Company diluted from approximately 66.7% to 11.1% by approximately 83.3% and Mr. Kok, the ultimate Controlling Shareholder and the owner of the Underwriter, will hold approximately 88.9% of the enlarged issue share capital of the Company.

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

Scenario 3:

All Qualifying Shareholders except the Controlling Shareholder apply for all the Offer Shares pro-rata to their existing shareholding and assuming all the outstanding Options except those held by Mr. Kok, Mr. Lam and Mr. Li are fully exercised before the Record Date:

| | Existing shareholding | | Options exercised | | Offer Shares | Enlarged shareholding | |
|---|----------------------------------|--------------|------------------------------|----------|-------------------------|----------------------------------|--------------|
| | <i>Adjusted</i> | | <i>Adjusted</i> | | | <i>Adjusted</i> | |
| | <i>Shares</i> | <i>%</i> | <i>Shares</i> | | | <i>Shares</i> | <i>%</i> |
| Controlling Shareholder and parties in concert | 33,981,840 | 33.3 | – | – | – | 33,981,840 | 5.4 |
| Underwriter | – | 0.0 | – | – | 169,909,200 | 169,909,200 | 26.9 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Subtotal | 33,981,840 | 33.3 | – | – | 169,909,200 | 203,891,040 | 32.3 |
| Public | 67,929,363 | 66.7 | 3,394,480 | – | 356,619,215 | 427,943,058 | 67.7 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total | <u>101,911,203</u> | <u>100.0</u> | <u>3,394,480</u> | <u>–</u> | <u>526,528,415</u> | <u>631,834,098</u> | <u>100.0</u> |

As shown in the table above, under Scenario 3, if all Qualifying Shareholders apply for their full assured allotments of Offer Shares and assuming all outstanding Options except those held by Mr. Kok, Mr. Lam and Mr. Li are fully exercised before the Record Date, there will be no dilution effect on the existing public Shareholders and the increase in their percentage shareholding in the Company by approximately 1.0% is attributable to the assumption that the outstanding Options are exercised before the Record Date. Mr. Kok, the ultimate Controlling Shareholder and the owner of the Underwriter will hold approximately 32.3% of the enlarged issue share capital of the Company.

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

Scenario 4:

If no Qualifying Shareholder applies for any of the Offer Shares and assuming all the outstanding Options except those held by Mr. Kok, Mr. Lam and Mr. Li are fully exercised before the Record Date:

| | Existing shareholding <i>Adjusted</i> Shares | % | Options exercised <i>Adjusted</i> Shares | Offer Shares | Enlarged shareholding <i>Adjusted</i> Shares | % |
|---|---|--------------|---|--------------------|---|--------------|
| Controlling Shareholder and parties in concert | 33,981,840 | 33.3 | – | – | 33,981,840 | 5.4 |
| Underwriter | – | 0.0 | – | 526,528,415 | 526,528,415 | 83.3 |
| Subtotal | 33,981,840 | 33.3 | – | 526,528,415 | 560,510,255 | 88.7 |
| Public | 67,929,363 | 66.7 | 3,394,480 | – | 71,323,843 | 11.3 |
| Total | <u>101,911,203</u> | <u>100.0</u> | <u>3,394,480</u> | <u>526,528,415</u> | <u>631,834,098</u> | <u>100.0</u> |

As shown in the table above, under Scenario 4, if all Qualifying Shareholders do not apply for their full assured allotments of Offer Shares and assuming all outstanding Options except those held by Mr. Kok, Mr. Lam and Mr. Li are fully exercised before the Record Date, existing public Shareholders will have their percentage shareholding in the Company diluted by approximately 83.1%, from approximately 66.7% to 11.3%. Mr. Kok, the ultimate Controlling Shareholder and the owner of the Underwriter will hold approximately 88.7% of the enlarged issue share capital of the Company.

As illustrated above, the Qualifying Shareholders will be diluted after completion of the Open Offer with a maximum dilution in shareholding of approximately 83.3%. However, unlike other equity fund raising exercises involving the enlargement of capital base such as placings, an issue of Shares under the Open Offer offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company should they wish to do so. It also allows all the Shareholders the opportunity to participate in the growth and development of the Company. Therefore, we consider the dilution is fair and reasonable so far as the Independent Shareholders are concerned.

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

5. Special Deal

As mentioned in the Board Letter, the net proceeds from the Open Offer, after expenses, are estimated to be approximately HK\$49 million (assuming no exercise of outstanding Options or Convertible Notes on or before the Record Date). The Directors intend to apply all the net proceeds of the Open Offer to repay part of the outstanding Convertible Notes (repayable on or before 27 March 2004) of approximately HK\$76.9 million held by Mr. Kok, a Director and sole beneficial owner of the Controlling Shareholder and the Underwriter. The partial repayment of the Convertible Notes held by Mr. Kok constitutes a “special deal” under Rule 25 of the Takeovers Code and hence requires consent from the Executive.

An application has been made to the Executive for the Special Deal. The Executive has indicated it will grant consent to the Special Deal, provided that we, the Independent Financial Adviser, publicly state in our opinion that the terms of the transaction are fair and reasonable and it is approved by the Independent Shareholders at the SGM on a vote taken by way of a poll.

Illustrated below is the Group’s loan schedule as at 31 January 2003:

| | Borrowings | Estimated annual interest expense | Estimated one-off prepayment fees |
|--|--|--|--|
| Convertible Notes held by Mr. Kok repayable on 27 March 2004 | approximately HK\$76.9 million | Nil | Nil |
| Convertible Notes held by Mr. Kok repayable on 7 November 2004 | approximately HK\$37.0 million | Nil | Nil |
| Convertible Notes held by Mr. Li repayable on 27 March 2004 | approximately HK\$81.4 million | Nil | Nil |
| Bills payable | approximately HK\$29.2 million | Nil | Nil |
| Trust receipt loans | approximately HK\$45.0 million | HK\$1,327,500 | N/A |
| Bank loans | approximately HK\$20.1 million | HK\$299,000 | HK\$763,300 |
| Total | approximately HK\$289.6 million | HK\$1,626,500 | HK\$763,300 |

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

The following illustrates the effect on the gearing ratio of the Group before and after the Open Offer and the Special Deal:

| | After the Open Offer and the Special Deal (assuming no outstanding Options or Convertible Notes are exercised on or before the Record Date) (HK\$ million) | Before the Open Offer and the Special deal as at 31 January 2003 (HK\$ million) |
|---|---|--|
| Convertible Notes held by Mr. Kok repayable on or before 7 November 2004 | 37.0 | 37.0 |
| Convertible Notes held by Mr. Kok repayable on or before 27 March 2004 | 27.9 | 76.9 |
| | 64.9 | 113.9 |
| Total Convertible Notes held by Mr. Kok | | |
| Convertible Notes held by Mr. Li repayable on or before 27 March 2004 | 81.4 | 81.4 |
| | 146.3 | 195.3 |
| Total outstanding Convertible Notes | | |
| Secured trust receipt loans | 45.0 | 45.0 |
| Bills payable | 29.2 | 29.2 |
| Secured bank loans | 20.1 | 20.1 |
| | 240.6 | 289.6 |
| Total debt | | |
| Unaudited consolidated NTAV | 254.2 | 205.2 |
| Total Convertible Notes held by Mr. Kok to total debt | 26.98% | 39.34% |
| Convertible Notes held by Mr. Li to total debt | 33.83% | 28.10% |
| Secured trust receipt loans | 18.70% | 15.54% |
| Bills payable | 12.14% | 10.08% |
| Secured bank loans to total debt | 8.35% | 6.94% |
| Gearing ratio | 94.7% | 141.1% |

The Group's major source of funds was cash flows generated from its operating activities, which was negative as at 31 October 2002, and financing from banks. As illustrated in the table above, the Group's total debt comprises (i) trade lines from banks (including trust receipt loans relating to letters of credit which usually provide for 60 to 90 days settlement), (ii) interest-bearing bank loans and (iii) the Convertible Notes held by Mr. Kok and Mr. Li. The Group is principally engaged in trading, a business which does not require long term debt. The Group purchases most of its trading stocks by letters of credit. As the Group's trading volume has increased significantly, the Group's demand for trade financing

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

from banks also increases significantly. Most financial institutions, including banks, hold low internal credit ratings of a company with high gearing ratio. With lower credit ratings, companies are likely to obtain financing at less favourable interest rates and terms from banks. The Group would like to maintain its commercial relationships with the banks as the Group has put a lot of effort in improving its creditworthiness and building up commercial relationships with the banks.

As at 31 January 2003, the Group's interest-bearing loans were mainly interest-bearing trust receipt loans and interest-bearing bank loans of approximately HK\$45.0 million and approximately HK\$20.1 million respectively. The Directors consider that repayment of loans on time will help the Group's credit rating. However, prepayment of loans may be seen as an indication of poor financial planning on the part of the Group indicating that the Group has taken on credit that is not required. As interest income is often banks' major source of income, prepayments of loans are generally unwelcome to banks, as this may affect their investment portfolio as well as planned use of funds. As a result, the banks will charge prepayments with one-off prepayment fees. In view of the above, we consider that early repayment of the interest-bearing bank loans may adversely affect the commercial relationship between the Group and the banks. Thus, the Directors consider that in order to reduce the Group's overall indebtedness without harming its relationships with the banks, the Directors therefore chose to repay the non-interest bearing loan, i.e. the Convertible Notes, instead of interest-bearing trust receipt loans and bank loans.

In exploring and considering different alternatives for improving the Group's financial position, the Directors have confirmed that they have discussed with both of the Convertible Notes holders, namely, Mr. Kok and Mr. Li the lowering of the Group's overall indebtedness by the Open Offer and repayment of Convertible Notes. Mr. Li has confirmed that he has no objection to the Company's application of the proceeds raised from the Open Offer to repay the Convertible Notes held by Mr. Kok and has given an irrevocable undertaking to the Company not to exercise his Convertible Notes on or before 31 May 2003. In addition, Mr. Li has also confirmed that he has no present intention to convert the Convertible Notes held by him after 31 May 2003 up to its maturity.

As mentioned in the foregoing, the Group's major source of funds is income generated from operating activities and financing from bank loans and that banks hold low internal credit ratings of a company with high gearing ratio. Thus, a company with high gearing ratio may obtain less favourable terms from the banks. As a result, a continued high gearing ratio may also pose obstacles for the Group's future business development as the Group needs to finance its business with trade financing from banks.

Accordingly, the Directors consider that it is crucial for the Group to lower its gearing ratio, reduce exposure to its existing single largest creditor and lower the Group's indebtedness with the Company's ultimate Controlling Shareholder, Mr. Kok, without harming the Group's relationships with the banks. We are of the opinion that the Special Deal would strengthen the financial position of the Group, reduce exposure to its existing single largest creditor and offer the Company greater flexibility to raise funds in the future and greater bargaining power for obtaining trade financing from banks.

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

As shown in the table above, the Convertible Notes held by Mr. Kok would decrease from approximately 39.34% of the total debts before the Open Offer and the Special Deal to approximately 26.98% of the total debts after completion of the Open Offer and the Special Deal. In addition, the gearing ratio of the Group would improve from approximately 141.1% before the Open Offer and the Special Deal to approximately 94.7% after the Open Offer and the Special Deal. We consider that with an improved financial position after the Open Offer and the Special Deal, the Group is expected to be placed in a better position to obtain from the banks trade finance facilities with more favourable terms and conditions.

The conversion price of the Convertible Notes of HK\$0.10 per Share or HK\$5.00 per Adjusted Share represents a premium of approximately 334.8% to the closing price of HK\$1.15 per Adjusted Share as at the Latest Practicable Date. We consider that the conversion price of the Convertible Notes is substantially out-of-the-money and it appears to be not attractive to the Convertible Notes holders to exercise the Convertible Notes at the moment. Moreover, the Company has no right or power to require conversion of any Convertible Notes at any time.

Mr. Kok, the ultimate Controlling Shareholder and the Underwriter, has confirmed that his intention is to improve the financial position of the Group and not to increase his stake in the shareholding of the Company (although that may be the effect of the underwriting arrangements in the event the Offer Shares are not applied for in full by the Qualifying Shareholders). As referred to in the Board Letter as set out on pages 6 to 25 of the Circular, the Directors consider that in view of the market conditions, it is unlikely that an independent underwriter would be willing to underwrite the Open Offer on terms as favourable to the Company as those agreed by the Underwriter. The Underwriter had agreed to act as the underwriter for the Open Offer to support the Company, having regard to the Directors' view that the determination of the terms of the Open Offer at favourable rates would be in the interests of the Company and the Shareholders as a whole. In view of the current sluggish market condition and the illiquidity of the Shares, we consider that it is difficult to find underwriter to underwrite the Open Offer on terms as favourable to the Company as those agreed by the Underwriter and the financial support demonstrated by the Underwriter in underwriting the Open Offer would enable the Open Offer to proceed with, and thereby in making available additional financial resources to the Group. In addition, we note that the Open Offer offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company should they wish to do so.

Taking all the above factors into account and the financial effects of the Open Offer and the Special Deal as discussed in paragraph "6. Financial effects of the Open Offer and the Special Deal" below, we consider that the Special Deal is in the interests of the Company and the Independent Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned.

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

6. Financial effects of the Open Offer and the Special Deal

(a) Effect on gearing ratio

The following table illustrates the financial effects of the Open Offer and the Special Deal on the Group's gearing ratio:

| | Assuming no outstanding Options or Convertible Notes are exercised on or before the Record Date HK\$' million |
|--|--|
| Audited consolidated net asset value of the Group as at 30 April 2002 | 422.2 |
| <i>Less:</i> Intangible assets of the Group as at 30 April 2002 | <u>(243.6)</u> |
| Audited consolidated NTAV as at 30 April 2002 | 178.6 |
| Unaudited profit for the six months ended 31 October 2002 | <u>26.6</u> |
| (i) Unaudited consolidated NTAV before the Open Offer | 205.2 |
| Estimated net proceeds from the Open Offer | <u>49.0</u> |
| (ii) Pro forma unaudited consolidated NTAV after the Open Offer | <u><u>254.2</u></u> |
| (iii) Total indebtedness of the Group based on the section "Indebtedness Statement" in Appendix I to the Circular as at 31 January 2003 | 289.6 |
| (iv) Intended application of proceeds to repay indebtedness | <u>(49.0)</u> |
| (v) Pro forma unaudited total indebtedness of the Group after the Open Offer and the Special Deal | 240.6 |
| Unaudited consolidated NTAV per Adjusted Share before the Open Offer (based on 101,911,203 Adjusted Shares as at the Latest Practicable Date) | HK\$2.014 |
| Pro forma unaudited adjusted consolidated NTAV per Adjusted Share after the Open Offer (based on 101,911,203 Adjusted Shares as at the Latest Practicable Date plus 509,556,015 Offer Shares to be issued for the Open Offer) | HK\$0.416 |
| Gearing ratio before the Open Offer and Special Deal = (iii)/(i) | 141.1% |
| Gearing ratio after the Open Offer and Special Deal = (v)/(ii) | 94.7% |

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

Following the completion of the Open Offer and Special Deal and assuming no outstanding Options or Convertible Notes are exercised, the Group's shareholders funds will increase from approximately HK\$448.7 million to approximately HK\$497.7 million and the unaudited consolidated NTAV will increase from approximately HK\$205.2 million to approximately HK\$254.2 million. The Group's total debt will reduce from approximately HK\$289.6 million to approximately HK\$240.6 million (comprising approximately HK\$45.0 million interest-bearing trust receipt loans, approximately HK\$20.1 million interest-bearing bank borrowings, approximately HK\$29.2 million of bills payable and approximately HK\$146.3 million Convertible Notes). The Group's gearing ratio as calculated from total debt divided by NTAV will be reduced from approximately 141.1% to approximately 94.7%. We are of the opinion that although after the Open Offer and the Special Deal, the Group's gearing ratio is considered to be relatively high, however, with an improved financial position, the Group will be placed in a better position to obtain favourable terms with the banks.

(b) Effect on NTAV per share and earnings per share

As disclosed in the published unaudited consolidated accounts of the Company for the six months ended 31 October 2002, the Group's unaudited net profit for that period amounted to approximately HK\$26.6 million. The following table illustrates the dilution effects of the Open Offer on the unaudited consolidated NTAV, unaudited consolidated NTAV per Adjusted Share, the unaudited net earnings of the Group and the unaudited net earnings of the Group per Adjusted Share for the six months ended 31 October 2002 (as disclosed in the interim report of the Group for the six months ended 31 October 2002) and assuming that no outstanding Options or Convertible Notes were exercised on or before the Record Date:

| | Unaudited consolidated NTAV | Unaudited net earnings of the Group for the six months ended 31 October 2002 |
|--|--|---|
| Before the Open Offer | approximately HK\$205.2 million | approximately HK\$26.6 million |
| After the Open Offer | approximately HK\$254.2 million | Approximately HK\$26.6 million |
| Per Adjusted Share before the Open Offer (based on 101,911,203 Adjusted Shares) | HK\$2.014 | HK\$0.261 |
| Per Adjusted Share after the Open Offer (based on 101,911,203 Adjusted Shares plus 509,556,015 Offer Shares to be issued for the Open Offer) | HK\$0.416 | HK\$0.043 |
| Dilution | 79.3% | 83.5% |

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

We are of the view that such a dilution in the unaudited consolidated NTAV per Adjusted Share and the unaudited net earnings per Adjusted Share is solely attributable to the enlargement in the capital base of the Company after the Open Offer. In this regard, we note that after the Open Offer, the issued share capital of the Company would increase by approximately 16.7% from 101,911,203 Adjusted Shares before the Open Offer to 611,467,218 shares of the Company (assuming no outstanding Options or Convertible Notes are exercised on or before the Record Date). On the other hand, the Group's unaudited consolidated NTAV would increase by approximately 23.9%, from approximately HK\$205.2 million before the Open Offer to approximately HK\$254.2 million after completion of the Open Offer. We note that, as discussed above, the decrease in the unaudited consolidated NTAV per Adjusted Share and the Group's unaudited net earnings per Adjusted Share by approximately 79.3% and 83.5% respectively as a result of the Open Offer is essentially attributable to the dilution effect caused by the issue of the 509,556,015 Offer Shares (assuming no outstanding Options or Convertible Notes are exercised on or before the Record Date) under the Open Offer, which would generate the relevant funding for lowering the Group's overall indebtedness. We wish to draw the attention of the Independent Shareholders to the fact that the Open Offer would help strengthen the Group's capital base as well as lower its gearing ratio. Therefore, Independent Shareholders are recommended to treat the Open Offer and the Special Deal as the best option available to the Group at present for the purpose of lowering the Group's overall indebtedness.

(c) *Effect on earnings*

Based on the interim report of the Company for the six months ended 31 October 2002, the unaudited consolidated net profit attributable to Shareholders was approximately HK\$26.59 million.

An analysis of the immediate effect of the Special Deal on the earnings of the Group for the six months ended 31 October 2002 as against the prepayment of interest-bearing bank loans would have on the earnings have been performed for reference only and can be illustrated below:

(i) *Special Deal*

The unaudited consolidated net profit attributable to Shareholders on a pro forma basis after the Special Deal would be unchanged as the repayment of the Convertible Notes held by Mr. Kok is non-interest bearing, thus, there will be no reduction in interest expense.

(ii) *Prepayment of trust receipt loans and bills payable*

As at 31 January 2003, interest-bearing trust receipt loans and bills payable amounted to approximately HK\$45.0 million and HK\$29.2 million respectively. We note that the Group's principal business is trading in nature and its suppliers require settlement by letters of credit, thus the trust receipt loans and bills payable are methods of settlements between the Group and its suppliers, even if the Group were to repay its existing trade facilities, which are letters of credit drawn by banks on each individual purchases, as at the

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

Latest Practicable Date before the maturity date, the Group will need to obtain new trade finance, which are letters of credit as new trades are negotiated. We consider that it is reasonable for the Group to repay the trust receipt loans upon maturity as the Group needs to maintain its commercial relationships with banks so as to keep lines available for its principal business. As such, we consider it is not appropriate for analysis purpose on the assumption that the Group were to prepay its trust receipt loans before maturity as the Group will likely need to seek new trade lines as new trades are negotiated.

(iii) Prepayment of other bank loans

As at 31 January 2003, interest-bearing bank loans amounted to approximately HK\$20.1 million. The Group's interest-bearing bank loans comprise mortgage loans and tax loans with estimated annual interest expense of approximately HK\$299,000. On the assumption that the Group uses the estimated proceeds from the Open Offer of approximately HK\$49 million to prepay the interest-bearing bank loans and without taking into account the prepayment charges, the Group's pro forma unaudited consolidated net profit for the six months ended 31 October 2002 would increase by approximately HK\$299,000 from approximately HK\$26.59 million to HK\$26.89 million. The Directors have confirmed that prepayment of the bank loans would entail prepayment penalties. On the assumption that the Group prepays the interest-bearing bank loans, an estimated prepayment expense (including prepayment penalties) would be approximately HK\$763,300 which amount to approximately 155% more than the annual interest expense. Taking into account the lowered interest expense and the prepayment charges, the Group's pro forma unaudited net profit for the six months ended 31 October 2002 would be lowered by approximately HK\$464,300 from HK\$26.59 million to HK\$26.12 million representing approximately 1.8% decrease.

On the assumption that the Group uses the proceeds from the Open Offer to prepay the interest-bearing bank loans after the Open Offer, the Group's interest expense will decrease by approximately HK\$281,000, HK\$115,000, HK\$71,000 and HK\$25,000 for the four years ending 30 April 2007 (taking into account the maturity dates of the loans). Total interest expenses for the four years ending 30 April 2007 will be approximately HK\$492,000. The one-off prepayment penalty fee of approximately HK\$763,300 would be approximately HK\$271,300 more than the expected savings on the interest expense. In light of the above, we consider that by saving approximately HK\$492,000 of interest expense for the four years ending 30 April 2007, the Group will have to pay approximately HK\$763,300 on the prepayment fees. Thus, the Group will incur additional expense and may adversely affect the commercial relationships between the Group and the banks.

In light of the above, the Special Deal would not have any immediate effect on the earnings of the Group for the six months ended 31 October 2002 on a pro forma basis; however, prepaying interest-bearing bank loans would have a negative effect on the earnings of the Group for the six months ended 31 October 2002 on a pro forma basis.

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

Upon completion of the Open Offer and the Special Deal, the amount owed by the Company to the single largest creditor, Mr. Kok, will be reduced from approximately HK\$113.9 million to approximately HK\$64.9 million, representing approximately 39.34% and 26.98% of the total debt respectively before and after the completion of the Open Offer and the Special Deal.

In view of the above, we are of the view that upon completion of the Open Offer and the Special Deal, the net tangible asset value of the Group will increase, and at the same time will reduce exposure to single largest creditor who is also the chairman of the Company and the ultimate Controlling Shareholder, and strengthening the financial position of the Group by lowering its overall indebtedness as a whole. Furthermore, most financial institutions, including banks will hold low internal credit rating of a company with high gearing. With lower credit ratings, companies are forced to obtain finance from banks at less favourable interest rates and terms. A continued high gearing ratio may also pose obstacles for the Group's future business development. We consider that the lowering of the Group's gearing ratio by partially repaying the Convertible Notes instead of prepaying the bank loans to be in the interest of the Company and the Independent Shareholders as prepayment of bank loans will incur prepayment penalties to the Group and may harm the commercial relationships between the Group and the banks since the principal activities of the Group are mainly trading in nature and the Group's dependence on the support from the banks in granting trade finance facilities to the Group. A strengthened financial position will offer the Company greater flexibility to raise funds in the future and greater bargaining power for obtaining trade financing from banks. This would place the Company in a better position to raise capital for its operations and future expansion. As such, despite the decrease in unaudited consolidated NTAV per Adjusted Share, we are of the view that the Open Offer and the Special Deal are in the long-term interests of both the Company and the Independent Shareholders.

7. Whitewash Waiver

As at the Latest Practicable Date, the Controlling Shareholder, together with parties acting in concert with it was interested in a total of 1,699,092,000 Shares, representing approximately 33.3% of the issued share capital of the Company.

On 19 October 2001, the Controlling Shareholder and together with parties acting in concert with it were interested in more than 30% but less than 35% of the voting rights in the Company and are thus subject to the transitional provisions under Rules 26.6 and 26.7 of the Takeovers Code. This includes a requirement to make a general offer for securities of the Company in the event they acquire control of voting rights of the Company equal to or exceeding 35% of those voting rights.

Immediately upon completion of the Open Offer, Mr. Kok and his concert parties (which include the Underwriter, which is beneficially wholly-owned by Mr. Kok) will be interested in between 203,891,040 Adjusted Shares (if all Qualifying Shareholders apply for and are allotted their full assured allotments of Offer Shares in which case no general offer obligation will arise) and 543,537,855 Adjusted Shares (if no Offer Shares are taken up by any Qualifying Shareholders other than the Underwriter and its concert parties in which case a general offer obligation will arise) representing approximately 33.3% and 88.9% of the enlarged issued share capital of the Company respectively (depending on the level of

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

applications in the Open Offer by the Shareholders and assuming no outstanding Options or Convertible Notes are exercised before the Record Date). Accordingly, if as a result of its taking up the Offer Shares under the Underwriting Agreement, the Underwriter and its concert parties acquire shares which increase their aggregate holding of voting rights to 35% or more, the Underwriter and its concert parties will, in the absence of the Whitewash Waiver, be required under Rule 26 of the Takeovers Code to make a general offer for the Shares, Convertible Notes and Options other than those held by the Underwriter and parties acting in concert with it.

An application has been made by the Underwriter to the Executive for the Whitewash Waiver. The Executive has indicated that it will grant the Whitewash Waiver subject to approval by the Independent Shareholders at the SGM by way of a poll.

In the event that the Whitewash Waiver is not granted by the Executive and/or approved by the Independent Shareholders, an obligation to make a mandatory general offer under the Takeovers Code for Shares and the Options and Convertible Notes arises, the Underwriter will, in accordance with Rule 26 of the Takeovers Code, make an unconditional mandatory cash offer at HK\$0.10 per Adjusted Share, which is equal to the Subscription Price, for all issued Adjusted Shares not already owned or agreed to be acquired by it or parties acting in concert with it. The cash offer price, HK\$0.10 per Adjusted Shares, represents a discount of approximately 91.3% to the closing price of HK\$1.15 per 50 Shares as at the Latest Practicable Date. Although the liquidity of the Shares had been generally low, as the cash offer price is much lower than the Company's share price as traded on the Stock Exchange, Independent Shareholders who wish to dispose of their shares in the Company should choose to dispose their shares in the market, if attainable, rather than accepting the cash offer.

Mr. Kok, the chairman of the Company, is beneficially the Controlling Shareholder and the owner of the Underwriter. Mr. Kok is interested in approximately 33.3% of the existing issued share capital of the Company. There is no other Shareholder shown in the section "Disclosure of interests", set out in Appendix III to the Circular, interested in 10% or more of the existing issued share capital of the Company as at the Latest Practicable Date. The Controlling Shareholder and parties acting in concert with it are already the largest shareholder of the Company before the Open Offer. As such, regardless of the result of the Open Offer and the Whitewash Waiver, there will be no change in the ultimate Controlling Shareholder, the management or the Board membership of the Group after the Open Offer and the Whitewash Waiver and the Group will continue to focus its resources on the mobile telecommunication business. When considering the effects of the Whitewash Waiver, we noted that by approving the Whitewash Waiver, Independent Shareholders will allow the Controlling Shareholder and parties acting in concert with it to possibly increase their shareholdings in the Company above 35% without an obligation to make a general offer. Independent Shareholders should further note that if, upon completion of the Open Offer, the Controlling Shareholder and parties acting in concert with it were to have an aggregate shareholding in the Company of more than 50%, the Controlling Shareholder and parties acting in concert with it would be able to increase their shareholding in the Company without incurring any further obligation to make a general offer under Rule 26 of the Takeovers Code and without obtaining Independent Shareholders' approval. Nevertheless, we consider the fact that the Open Offer is being underwritten by Mr. Kok who is the ultimate Controlling Shareholder and the sole owner of the Underwriter, has demonstrated his financial support to the Group and secures the Group's necessary funding for lowering its gearing ratio and that as prepayment of bank loans may harm the commercial relationships

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

between the Group and the banks since the principal activities of the Group are mainly trading in nature and the Group is dependent on the support from the banks in granting adequate trade finance facilities to the Group. Accordingly, we are of the view that the Whitewash Waiver is fair and reasonable and will not have any material adverse effect on the interests of the Independent Shareholders and we consider that it would be in the interests of the Independent Shareholders to vote in favour of the Whitewash Waiver.

RECOMMENDATION

In formulating our recommendation to the Independent Board Committee in respect of the Open Offer, the Special Deal and the Whitewash Waiver, we have taken into account all the factors and reasons set out above, in particular:

- the Open Offer is an acceptable and equitable means to raise funds for the Group under current circumstances and that the Subscription Price is acceptable;
- the discount of the Subscription Price to the closing price of the Shares on the last trading prior to the Announcement is slightly higher than the top of the Closing Range by approximately 0.15% which we consider an incentive to attract participation by Qualifying Shareholders in the Open Offer;
- the discount of approximately 80.66% of the Subscription Price to the theoretical ex-entitlements price of approximately HK\$0.517 per Adjusted Share based on the closing price of the Shares on the last trading day prior to the Announcement falls within the Theoretical Range;
- the discount of the Subscription Price to the closing price of the Shares on the last trading day prior to the Announcement and the discount of the Subscription Price to the theoretical ex-entitlements price based on the closing price of the Shares on the last trading day prior to the Announcement are higher than the respective average discount of the 38 rights issue and 5 open offers we have analysed;
- although prepayment of interest-bearing bank loans will lower the Group's interest expense by approximately HK\$299,000, the Group has to bear prepayment penalty charges of approximately HK\$763,300 which will lower the Group's profits by approximately 1.8% on a pro forma basis for the six months ended 31 October 2002;
- the Open Offer will reduce the Group's overall indebtedness from approximately HK\$289.6 million to approximately HK\$240.6 million, thus improving the Group's gearing position from approximately 141.1% to approximately 94.7%;
- the Open Offer and the Special Deal will lower the Group's exposure to the single largest creditor of the Group from approximately HK\$113.9 million to approximately HK\$64.9 million; and
- the unaudited consolidated NTAV per Adjusted Share will be diluted from approximately HK\$2.014 before the Open Offer to approximately HK\$0.416 after the

LETTER OF ADVICE FROM THE INDEPENDENT FINANCIAL ADVISER

Open Offer and the unaudited net earnings per Adjusted Share for the six months ended 31 October 2002 will be reduced from approximately HK\$0.261 to approximately HK\$0.043. Notwithstanding the decrease in the unaudited consolidated NTAV per Adjusted and the net earnings per Adjusted Share, the Open Offer would generate relevant funding for lowering the Group's overall indebtedness and that the Open Offer would help strengthen the Group's capital base.

Having considered the above factors and reasons, we are of the opinion that the Open Offer and the Special Deal are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole, and that the Whitewash Waiver is fair and reasonable and will not have any material adverse effect on the interests of the Independent Shareholders. We would therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions to approve the Open Offer, the Special Deal and the Whitewash Waiver to be proposed at the SGM.

Yours faithfully,
For and on behalf of
First Asia Finance Group Limited
Graham Lam
Director

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

1. SHARE CAPITAL

The following are the authorised and issued share capital of the Company as at the Latest Practicable Date prepared as if the Capital Restructuring and Open Offer have been completed:

| <i>Authorised:</i> | <i>HK\$</i> |
|--|--------------------|
| <u>8,000,000,000</u> Shares as at the Latest Practicable Date | <u>800,000,000</u> |
| <i>Issued and fully paid:</i> | |
| <u>5,095,560,175</u> Shares in issue as at the Latest Practicable Date | <u>509,556,018</u> |
| 101,911,203 Adjusted Shares upon completion of the Capital Restructuring | 1,019,112 |
| <u>509,556,015</u> Adjusted Shares to be issued pursuant to the Open Offer (assuming no Options are exercised) | <u>5,095,560</u> |
| <u>611,467,218</u> Adjusted Shares in issue upon completion of Open Offer (assuming no Options are exercised) | <u>6,114,672</u> |

All the existing issued Shares rank *pari passu* in all respects including rights to dividends, voting and return of capital. There has been no alteration in the authorised and issued share capital of the Company since 30 April 2002 (the date to which the last audited financial statements on the Group were made up).

Upon completion of the Capital Restructuring, all of the Adjusted Shares then in issue will rank *pari passu* in all respects with each other, including in particular, as to dividends, voting rights and return of capital in a winding up.

As at the Latest Practicable Date, there were Convertible Notes issued by the Company with total outstanding principal amount of HK\$195,304,703 which are convertible into an aggregate of 1,953,047,030 Shares, representing approximately 38.3% of the issued share capital of the Company. As at the Latest Practicable Date, there are Options which are convertible into 239,724,000 Shares representing approximately 4.7% of the issued share capital of the Company.

As at the Latest Practicable Date, other than the Convertible Notes and the Options (as disclosed in notes 19 and 22 of notes to the Accounts for the year ended 30 April 2002 in Appendix I, paragraph 3(ii) in Appendix III and pages 22 and 23 in the letter from the Board), the Company had no outstanding warrants or securities convertible into Shares, and no share or loan capital of the Company was under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares or other derivative in respect of securities of the Company or which carry voting rights in meetings of the Company has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

Subject to the passing of the relevant resolution at the SGM, a general unconditional mandate will be granted to the Directors to allot, issue and deal with the shares in the capital of the Company with an aggregate nominal value not exceeding 20% of the total nominal amount of the issued share capital of the Company in the terms as set out in the relevant resolution in the notice of the SGM.

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| APPENDIX I | FINANCIAL INFORMATION REGARDING THE GROUP |
|-------------------|--|

2. SUMMARY OF AUDITED CONSOLIDATED RESULTS OF THE GROUP FOR THE THREE YEARS ENDED 30 APRIL 2002

Set out below is a summary of the audited consolidated results of the Group for the three years ended 30 April 2002 extracted from the Group's audited financial statements:

| | 2002 | 2001 | 2000 |
|---|---------------------|---------------------|---------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Turnover | 1,480,218 | 752,846 | 758,168 |
| Cost of sales | <u>(1,236,547)</u> | <u>(487,460)</u> | <u>(485,616)</u> |
| Gross profit | 243,671 | 265,386 | 272,552 |
| Other revenues | 24,052 | 11,406 | 7,764 |
| Distribution cost | (153,045) | (198,159) | (212,325) |
| Administrative expenses | <u>(122,213)</u> | <u>(92,852)</u> | <u>(108,580)</u> |
| Operating loss | (7,535) | (14,219) | (40,589) |
| Other losses | | | |
| 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) | – | – |
| Net loss on writing off subsidiaries on discontinued operations | <u>–</u> | <u>–</u> | <u>(12,423)</u> |
| Loss before finance costs | (211,157) | (14,219) | (53,012) |
| Finance costs | <u>(7,224)</u> | <u>(9,610)</u> | <u>(11,866)</u> |
| Loss before taxation | (218,381) | (23,829) | (64,878) |
| Taxation (charge)/credit | <u>(12,064)</u> | <u>1,224</u> | <u>453</u> |
| Loss after taxation | (230,445) | (22,605) | (64,425) |
| Minority interests | <u>(24,188)</u> | <u>–</u> | <u>437</u> |
| Loss attributable to shareholders | <u>(254,633)</u> | <u>(22,605)</u> | <u>(63,988)</u> |
| Loss per share – basic | <u>(5.63) cents</u> | <u>(0.69) cents</u> | <u>(2.78) cents</u> |

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| APPENDIX I | FINANCIAL INFORMATION REGARDING THE GROUP |
|-------------------|--|

3. Set out below are the audited financial statements of the Group as extracted from the annual report of the Group for the year ended 30 April 2002:

Consolidated Profit and Loss Account

For the year ended 30 April 2002

| | <i>Note</i> | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
|---|--------------|--------------------------------|--------------------------------|
| Turnover | 2 | 1,480,218 | 752,846 |
| Cost of sales | | <u>(1,236,547)</u> | <u>(487,460)</u> |
| Gross profit | | 243,671 | 265,386 |
| Other revenues | 2 | 24,052 | 11,406 |
| Distribution cost | | (153,045) | (198,159) |
| Administrative expenses | | <u>(122,213)</u> | <u>(92,852)</u> |
| Operating loss | | (7,535) | (14,219) |
| Other losses | | | |
| 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 | <i>11(c)</i> | <u>(103,270)</u> | <u>–</u> |
| Loss before finance costs | 3 | (211,157) | (14,219) |
| Finance costs | 4 | <u>(7,224)</u> | <u>(9,610)</u> |
| Loss before taxation | | (218,381) | (23,829) |
| Taxation (charge)/credit | 5 | <u>(12,064)</u> | <u>1,224</u> |
| Loss after taxation | | (230,445) | (22,605) |
| Minority interests | | <u>(24,188)</u> | <u>–</u> |
| Loss attributable to shareholders | 6 | <u>(254,633)</u> | <u>(22,605)</u> |
| Loss per share – basic | 7 | <u>(5.63) cents</u> | <u>(0.69) cents</u> |

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

Consolidated Balance Sheet

As at 30 April

| | <i>Note</i> | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
|--|--------------|--------------------------------|--------------------------------|
| Goodwill | <i>10</i> | 243,577 | – |
| Fixed assets | <i>11</i> | 166,990 | 361,702 |
| Long-term investments | <i>12</i> | – | 34,762 |
| Current assets | | | |
| Inventories | <i>14</i> | 129,464 | 135,204 |
| Accounts receivable | <i>15</i> | 179,800 | 168,213 |
| Prepayments, deposits and other receivables | | 25,885 | 31,625 |
| Due from a related company | <i>16</i> | 178,804 | – |
| Tax recoverable | | – | 888 |
| Pledged bank deposits | <i>21</i> | 50,867 | 6,000 |
| Bank balances and cash | <i>17</i> | 113,096 | 79,762 |
| | | <u>677,916</u> | <u>421,692</u> |
| Current liabilities | | | |
| Accounts and bills payable | <i>18</i> | 294,308 | 97,332 |
| Accrued charges and other payables | | 62,068 | 98,638 |
| Due to a related company | <i>16</i> | 1,553 | – |
| Sales deposits received | | 14,642 | 26,292 |
| Tax payable | | 13,728 | 787 |
| Current portion of interest-bearing borrowings | <i>21</i> | 97,262 | 60,372 |
| | | <u>483,561</u> | <u>283,421</u> |
| Net current assets | | <u>194,355</u> | <u>138,271</u> |
| Total assets less current liabilities | | <u>604,922</u> | <u>534,735</u> |
| Financed by: | | | |
| Share capital | <i>19(a)</i> | 509,556 | 383,156 |
| Reserves | <i>20</i> | (87,370) | 149,386 |
| Shareholders' funds | | 422,186 | 532,542 |
| Minority interests | | 17,105 | – |
| Convertible notes | <i>22</i> | 158,305 | – |
| Non-current portion of interest-bearing borrowings | <i>21</i> | 7,326 | 2,193 |
| | | <u>604,922</u> | <u>534,735</u> |

| | |
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| APPENDIX I | FINANCIAL INFORMATION REGARDING THE GROUP |
|-------------------|--|

Balance Sheet

As at 30 April

| | <i>Note</i> | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
|---|--------------|--------------------------------|--------------------------------|
| Investments in subsidiaries | <i>13</i> | 504,064 | 495,414 |
| Current assets | | | |
| Prepayments, deposits and other receivables | | 60,200 | 454 |
| Bank balances and cash | | <u>10,612</u> | <u>1</u> |
| | | ----- 70,812 | ----- 455 |
| Current liabilities | | | |
| Accrued charges and other payables | | ----- 7,728 | ----- 7 |
| Net current assets | | ----- 63,084 | ----- 448 |
| Total assets less current liabilities | | <u>567,148</u> | <u>495,862</u> |
| Financed by: | | | |
| Share capital | <i>19(a)</i> | 509,556 | 383,156 |
| Reserves | <i>20</i> | <u>(100,713)</u> | <u>112,706</u> |
| Shareholders' funds | | 408,843 | 495,862 |
| Convertible notes | <i>22</i> | <u>158,305</u> | <u>–</u> |
| | | <u>567,148</u> | <u>495,862</u> |

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

Consolidated Cash Flow Statement

For the year ended 30 April

| | <i>Note</i> | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
|--|-------------|--------------------------------|--------------------------------|
| Net cash inflow from operating activities | 23(a) | 21,729 | 64,311 |
| Returns on investments and servicing of finance | | | |
| Interest received | | 1,609 | 1,966 |
| Interest paid | | (5,236) | (8,043) |
| Interest element of finance leases | | (151) | (321) |
| Bank charges and other borrowing costs | | (1,837) | (2,287) |
| Net cash outflow from returns on investments and servicing of finance | | (5,615) | (8,685) |
| Taxation | | | |
| Hong Kong profits tax (paid)/refunded | | (4,629) | 704 |
| Investing activities | | | |
| Purchase of fixed assets | | (32,143) | (53,557) |
| Disposal of fixed assets | | 4,343 | 161 |
| Purchase of subsidiaries | 23(d) | (126,050) | – |
| Disposal of subsidiaries | 23(c) | 64,148 | – |
| Disposal of long-term investments | | 420 | – |
| Purchase of long-term investments | | – | (440) |
| Repayment of loan by an investee company | | 421 | 790 |
| Net cash outflow from investing activities | | (88,861) | (53,046) |
| Net cash (outflow)/inflow before financing | | (77,376) | 3,284 |
| Financing | 23(b) | | |
| Issue of shares, net of expenses | | 81,664 | 49,031 |
| New bank loans | | 79,839 | 34,417 |
| Repayment of bank loans | | (42,772) | (89,010) |
| Net repayment of trust receipt loans | | (7,022) | (10,114) |
| Payment of capital element of finance leases | | (454) | (1,052) |
| Net cash inflow/(outflow) from financing | | 111,255 | (16,728) |
| Increase/(decrease) in cash and cash equivalents | | 33,879 | (13,444) |
| Cash and cash equivalents at the beginning of year | | 79,217 | 92,661 |
| Cash and cash equivalents at the end of year | | <u>113,096</u> | <u>79,217</u> |
| Analysis of the balances of cash and cash equivalents | | | |
| Bank balances and cash | | 113,096 | 79,762 |
| Bank overdrafts | | – | (545) |
| | | <u>113,096</u> | <u>79,217</u> |

| | |
|-------------------|--|
| APPENDIX I | FINANCIAL INFORMATION REGARDING THE GROUP |
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Consolidated Statement of Recognised Gains and Losses

For the year ended 30 April

| | <i>Note</i> | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
|--|-------------|--------------------------------|--------------------------------|
| Loss for the year | 20 | (254,633) | (22,605) |
| Reserves realised upon disposal of subsidiaries | 20 | <u>(1,018)</u> | <u>–</u> |
| Total recognised losses | | (255,651) | (22,605) |
| Goodwill previously written off against retained earnings realised upon disposal of subsidiaries | 20 | <u>18,631</u> | <u>–</u> |
| | | <u><u>(237,020)</u></u> | <u><u>(22,605)</u></u> |

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these 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”). They have been prepared under the historical cost convention.

In the current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2001 and applicable to the Group:

| | |
|-------------------|--|
| SSAP 9 (revised) | : Events after the balance sheet date |
| SSAP 14 (revised) | : Leases (effective for periods commencing on or after 1 July 2000) |
| SSAP 26 | : Segment reporting |
| SSAP 28 | : Provisions, contingent liabilities and contingent assets |
| SSAP 29 | : Intangible assets |
| SSAP 30 | : Business combinations |
| SSAP 31 | : Impairment of assets |
| SSAP 32 | : Consolidated financial statements and accounting for investments in subsidiaries |

The effect of adopting these new standards is set out in the accounting policies below.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30 April. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power, holds more than half of the issued share capital or having the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

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) 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.

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

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

(c) Fixed assets

Construction in progress is stated at cost which comprises cost of land use rights and development costs including attributable interest capitalised during the development period. No depreciation is provided on construction in progress.

Fixed assets other than construction in progress are stated at cost less accumulated depreciation and accumulated impairment losses. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use. Leasehold land and buildings (including land use rights) 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 (excluding construction in progress) 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, 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.

(d) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated in accordance with the policies set out in note 1(c).

(ii) 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.

(e) 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.

In accordance with SSAP 30, goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life of 10 years.

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

Goodwill on acquisitions that occurred prior to 1 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.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1 January 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

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.

(f) Investments securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(g) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. In general, costs are assigned to items on a first-in first-out basis and are arrived at as follows:

- (i) Raw materials purchased for use in manufacturing process – invoiced price plus freight and insurance charges.
- (ii) Work in progress and finished manufactured goods – cost of direct materials, direct labour and an appropriate proportion of production overheads.
- (iii) Finished goods purchased for resale – invoiced price plus freight and insurance charges.

Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Accounts receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(i) 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 bank overdrafts.

(j) 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.

(k) 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.

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

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.

(l) 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.

(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.

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) Retirement benefit costs

The Group's contributions to defined contribution retirement schemes (including the scheme set up pursuant to the Mandatory Provident Fund Schemes Ordinance) are expensed as incurred. The Group's contribution to the non-mandatory scheme may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

(o) 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.

(p) 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 bank borrowings. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, reported sales reflect the country in which the customer is located. The analyses of total assets and capital expenditure reflect the location of assets.

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| APPENDIX I | FINANCIAL INFORMATION REGARDING THE GROUP |
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2. REVENUE, TURNOVER AND SEGMENT INFORMATION

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

| | 2002 | Group |
|-----------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>2001</i> |
| | | <i>HK\$'000</i> |
| Turnover | | |
| Sale of goods | 1,480,218 | 752,846 |
| Other revenues | | |
| Rendering of services | 21,708 | 8,393 |
| Interest income | 1,609 | 1,966 |
| Franchise income | 735 | 1,047 |
| | 24,052 | 11,406 |
| | 24,052 | 11,406 |
| Total revenues | 1,504,270 | 764,252 |

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

- (i) Mobile phones, parts and components – trading of mobile phones, parts and components
- (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 between the business segments.

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

(c) Primary reporting format – business segments

| | Mobile phones, parts and components 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>73,713</u> | <u>(52,425)</u> | <u>(14,830)</u> | 6,458 |
| 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) |
| Unallocated costs less revenue | | | | <u>(13,993)</u> |
| 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 | – | <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 | – | 103,270 |

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

| | Office furniture and building materials 2001 HK\$'000 | Kitchen cabinets 2001 HK\$'000 | Trading of home furniture (note) 2001 HK\$'000 | Group 2001 HK\$'000 |
|-----------------------------------|--|---|---|------------------------------------|
| Turnover | <u>701,319</u> | <u>51,527</u> | <u>–</u> | <u>752,846</u> |
| Segment results | <u>(9,213)</u> | <u>(11,302)</u> | <u>4,330</u> | (16,185) |
| Unallocated revenue less costs | | | | <u>1,966</u> |
| Loss before finance costs | | | | (14,219) |
| Finance costs | | | | <u>(9,610)</u> |
| Loss before taxation | | | | (23,829) |
| Taxation credit | | | | <u>1,224</u> |
| Loss attributable to shareholders | | | | <u>(22,605)</u> |
| Segment assets | 779,028 | 38,240 | – | 817,268 |
| Unallocated assets | | | | <u>888</u> |
| Total assets | | | | <u>818,156</u> |
| Segment liabilities | 205,835 | 16,427 | – | 222,262 |
| Unallocated liabilities | | | | <u>63,352</u> |
| Total liabilities | | | | <u>285,614</u> |
| Capital expenditure | 55,697 | 151 | – | 55,848 |
| Depreciation | 21,073 | 88 | – | 21,161 |

Note: The business of trading of home furniture was discontinued in the year ended 30 April 2000. The segment results for the year ended 30 April 2001 represented an insurance claim received by the Group.

(d) Secondary reporting format – geographical segments

| | Turnover 2002 HK\$'000 | Segment results 2002 HK\$'000 | Total assets 2002 HK\$'000 | Capital expenditure 2002 HK\$'000 |
|---|---------------------------------------|--|---|--|
| Hong Kong | 210,968 | (39,512) | 759,491 | 16,793 |
| The People's Republic of China excluding Hong Kong (the "PRC") | 1,253,330 | 42,918 | 328,992 | 15,350 |
| Others | <u>15,920</u> | <u>197</u> | <u>–</u> | <u>–</u> |
| | <u>1,480,218</u> | 3,603 | <u>1,088,483</u> | <u>32,143</u> |
| 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) | | |
| Unallocated costs less revenue | | <u>(11,138)</u> | | |
| Loss before finance costs | | <u>(211,157)</u> | | |

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

| | Turnover 2001 HK\$'000 | Segment results 2001 HK\$'000 | Total assets 2001 HK\$'000 | Capital expenditure 2001 HK\$'000 |
|--------------------------------|---------------------------------------|--|---|--|
| Hong Kong | 341,336 | (13,310) | 322,859 | 5,453 |
| The PRC | 390,422 | (1,119) | 494,409 | 50,395 |
| Others | 21,088 | (1,756) | – | – |
| | <u>752,846</u> | <u>(16,185)</u> | <u>817,268</u> | <u>55,848</u> |
| Unallocated revenue less costs | | <u>1,966</u> | | |
| Loss before finance costs | | <u>(14,219)</u> | | |
| Unallocated assets | | | <u>888</u> | |
| Total assets | | | <u>818,156</u> | |

3. LOSS BEFORE FINANCE COSTS

- (a) Loss before finance costs is stated after crediting and charging the following:

| | Group 2002 HK\$'000 | 2001 HK\$'000 |
|---|------------------------------------|--------------------------|
| Crediting | | |
| Net exchange gains | <u>363</u> | <u>–</u> |
| Charging | | |
| Cost of inventories sold | 1,190,756 | 458,049 |
| Auditors' remuneration | 1,253 | 1,382 |
| Depreciation: | | |
| Owned fixed assets | 24,925 | 20,370 |
| Leased fixed assets | 520 | 791 |
| Staff cost (including directors' remuneration and of which included in cost of sales amounted to HK\$11,035,000 (2001: HK\$12,454,000)) | 151,068 | 173,783 |
| Operating lease rentals for land and buildings | 19,691 | 22,490 |
| Amortisation of goodwill | 8,289 | – |
| Provision for diminution in value of investment and loan | – | 4,410 |
| Provision for doubtful debts | 15,138 | 8,615 |
| Retirement benefit costs (<i>note 8</i>) | 2,270 | 1,191 |
| Net exchange losses | – | 585 |
| Loss on disposal of fixed assets | <u>3,712</u> | <u>357</u> |

- (b) The contribution to loss before finance costs in the year ended 30 April 2001 in respect of the discontinued operations, which comprised home furniture trading operations in the PRC, is as follows:

| | 2002 HK\$'000 | 2001 HK\$'000 |
|---------------------------|--------------------------|--------------------------|
| Insurance claims received | <u>–</u> | <u>4,330</u> |

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

4. FINANCE COSTS

| | 2002 | 2001 |
|--|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest on bank loans and overdrafts wholly repayable | | |
| within five years | 5,236 | 8,043 |
| Interest element of finance leases | 151 | 321 |
| Bank charges and other borrowing costs | 1,837 | 2,287 |
| Less: amount capitalised in construction in progress | – | (1,041) |
| | 7,224 | 9,610 |
| | 7,224 | 9,610 |

5. TAXATION

Hong Kong profits tax has been provided at the rate of 16% (2001: 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 (2001: Nil).

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

| | Group | |
|--|-----------------|-----------------|
| | 2002 | 2001 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Hong Kong profits tax | | |
| Current year | (12,042) | – |
| (Under)/over provision in previous years | (22) | 770 |
| Deferred taxation | – | 454 |
| | (12,064) | 1,224 |
| | (12,064) | 1,224 |

There was no material unprovided deferred taxation for the year.

6. LOSS ATTRIBUTABLE TO SHAREHOLDERS

Included in the Group's loss attributable to shareholders is a loss of HK\$213,683,000 (2001: profit of HK\$11,970,000) which has been dealt with in the accounts of the Company.

7. LOSS PER SHARE

The calculation of the basic loss per share is based on the Group's loss attributable to shareholders of HK\$254,633,000 (2001: HK\$22,605,000) and the weighted average of 4,522,891,682 (2001: 3,261,740,866) ordinary shares in issue during the year.

No diluted loss per share has been presented for the year ended 30 April 2002 as the exercise of share options and convertible notes would be anti-dilutive.

8. RETIREMENT BENEFIT COSTS

The Group contributes to defined contribution retirement schemes (including the scheme set up pursuant to the Mandatory Provident Fund Schemes Ordinance) which are available to salaried person in the employment in Hong Kong of the Group. Contributions to the schemes by the Group and the employees are calculated as a percentage of the employees' basic salaries.

The retirement benefit scheme cost charged to the profit and loss accounts represents contributions payable by the Group to the funds.

The Group's contributions are reduced by contributions forfeited by those employees who leave the non-mandatory scheme prior to vesting fully in the contributions. Forfeited contributions totalling HK\$839,429 (2001: HK\$762,691) were utilised during the year leaving HK\$nil (2001: HK\$6,615) available at the year end to reduce future contributions.

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

Contributions totalling HK\$58,250 (2001: HK\$915,914) were payable to the funds at the year end and are included in other payables. The assets of the schemes are held separately from those of the Group in independently administered funds.

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' remuneration

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

| | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Fees | | |
| Executive directors | – | – |
| Non-executive directors | – | – |
| Independent non-executive directors | – | – |
| For management | | |
| Salaries, allowances and benefits in kind | 9,017 | 11,152 |
| Retirement benefits contributions | 210 | 165 |
| Discretionary bonuses | – | 1,032 |
| | <u>9,227</u> | <u>12,349</u> |

No directors have waived emoluments in respect of the years ended 30 April 2002 and 2001.

The emoluments of the directors fell within the following bands:

| Emolument bands | Number of directors 2002 | 2001 |
|-------------------------------|-----------------------------|----------|
| Nil – HK\$1,000,000 | 13 | 3 |
| HK\$1,000,001 – HK\$1,500,000 | – | 2 |
| HK\$1,500,001 – HK\$2,000,000 | 2 | 3 |
| HK\$4,000,001 – HK\$4,500,000 | <u>1</u> | <u>1</u> |

On 25 April 2002, two former directors of the Company had exercised their share options to subscribe for a total of 48,000,000 ordinary shares of HK\$0.10 each of the Company at an exercise price of HK\$0.1055 per share. The closing market price of the Company's share at the exercise date was HK\$0.155 per share. They resigned as directors of the Company on 8 August 2001.

Details of the outstanding share options held by directors of the Company as at 30 April 2002 are as follows:

| Date of grant | Exercise price per share | Options outstanding at 30 April 2002 | Exercisable period |
|----------------|-----------------------------|--|---------------------------------------|
| 31 August 2001 | HK\$0.10 | 50,000,000 | 1 September 2001 to 31 August 2005 |
| 3 January 2000 | HK\$0.1055 | 32,100,000 <i>(note)</i> | 3 January 2000 to 2 January 2004 |
| 3 July 1997 | HK\$0.2619 | 50,400,000 <i>(note)</i> | 3 July 1997 to 2 July 2007 |

Note: The director holding these options has undertaken that he would not exercise these options.

The closing market price of the Company's shares as at 30 April 2002 was HK\$0.142 per share.

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

Apart from the aforesaid, no other emoluments have been paid to the directors for the years ended 30 April 2002 and 2001.

No amounts have been paid by the Group to the directors as inducement to join the Group or as compensation for loss of office for the years ended 30 April 2002 and 2001.

(b) Five highest paid individuals

Three individuals (2001: Five) 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:

| | 2002 | 2001 |
|---|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Salaries, allowances and benefits in kind | 3,376 | – |
| Retirement benefits contributions | 48 | – |
| | <u>3,424</u> | <u>–</u> |

The remuneration of the remaining two (2001: Nil) individuals who are not directors fell within the following bands:

| Emolument bands | Number of individuals | |
|-------------------------------|------------------------------|-------------|
| | 2002 | 2001 |
| HK\$1,500,001 – HK\$2,000,000 | <u>2</u> | <u>–</u> |

10. GOODWILL

| | <i>HK\$'000</i> |
|--|-----------------|
| Cost | |
| At 1 May 2001 | – |
| Purchase of subsidiaries (<i>note 23(d)</i>) | 251,866 |
| | <u>251,866</u> |
| At 30 April 2002 | ----- 251,866 |
| Accumulated amortisation | |
| At 1 May 2001 | – |
| Charge for the year | 8,289 |
| | <u>8,289</u> |
| At 30 April 2002 | ----- 8,289 |
| Net book value | |
| At 30 April 2002 | <u>243,577</u> |
| At 30 April 2001 | <u>–</u> |

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

11. FIXED ASSETS

| | Group | | | | | | Total HK\$'000 |
|---|---|---|--|------------------------------------|---|---|-------------------|
| | Leasehold land, land use rights and buildings HK\$'000 | Construction in progress 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 | |
| Cost | | | | | | | |
| At 1 May 2001 | 327,085 | 7,334 | 6,930 | 73,214 | 74,150 | 19,164 | 507,877 |
| Additions | 16,741 | - | 720 | 8,905 | 5,777 | - | 32,143 |
| Acquisition of subsidiaries | - | - | 388 | - | 484 | - | 872 |
| Disposals of subsidiaries | (104,029) | - | (5,934) | (1,200) | (18,518) | (15,196) | (144,877) |
| Transfers | 7,334 | (7,334) | - | - | - | - | - |
| Disposals | (8,943) | - | (1,054) | - | (882) | (1,054) | (11,933) |
| At 30 April 2002 | <u>238,188</u> | <u>-</u> | <u>1,050</u> | <u>80,919</u> | <u>61,011</u> | <u>2,914</u> | <u>384,082</u> |
| Accumulated depreciation and impairment losses | | | | | | | |
| At 1 May 2001 | 31,885 | - | 3,427 | 38,570 | 54,937 | 17,356 | 146,175 |
| Charge for the year | 6,501 | - | 1,211 | 11,225 | 5,969 | 539 | 25,445 |
| Disposals of subsidiaries | (21,329) | - | (3,239) | (966) | (14,272) | (14,114) | (53,920) |
| Impairment losses | 103,270 | - | - | - | - | - | 103,270 |
| Disposals | (1,787) | - | (1,030) | - | (7) | (1,054) | (3,878) |
| At 30 April 2002 | <u>118,540</u> | <u>-</u> | <u>369</u> | <u>48,829</u> | <u>46,627</u> | <u>2,727</u> | <u>217,092</u> |
| Net book value | | | | | | | |
| At 30 April 2002 | <u>119,648</u> | <u>-</u> | <u>681</u> | <u>32,090</u> | <u>14,384</u> | <u>187</u> | <u>166,990</u> |
| At 30 April 2001 | <u>295,200</u> | <u>7,334</u> | <u>3,503</u> | <u>34,644</u> | <u>19,213</u> | <u>1,808</u> | <u>361,702</u> |

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

| | Group | |
|----------------------------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| In Hong Kong, held on: | | |
| Leases of over 50 years | 13,971 | 7,008 |
| Leases of between 10 to 50 years | - | 80,664 |
| In the PRC, held on: | | |
| Leases of over 50 years | - | 3,981 |
| Leases of between 10 to 50 years | 105,677 | 203,547 |
| | <u>119,648</u> | <u>295,200</u> |

- (b) At 30 April 2002, the net book value of leasehold land and buildings pledged as security for the Group's bank loan and overdraft facilities amounted to HK\$60,475,000 (2001: HK\$182,488,000) (note 21).

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

- (c) In light of the economic downturn and the sustained loss of the office furniture business, the directors have reviewed the carrying value of the Group's assets and provision for impairment losses of HK\$103,270,000 was made for certain leasehold land, land use rights and buildings held by the Group for its office furniture business in the PRC based on the estimated open market value of these properties as at 30 April 2002.

12. LONG-TERM INVESTMENTS

| | Group | |
|--|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Investment securities: unlisted shares, at cost | – | 33,560 |
| Loan to an investee company | – | 15,115 |
| | – | 48,675 |
| Less: Provision for diminution in value of investment and loan | – | (13,913) |
| | – | 34,762 |

13. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|-------------------------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Unlisted shares, at cost (*) | – | 135,857 |
| Amounts due from subsidiaries | 542,827 | 359,557 |
| Amounts due to subsidiaries | (38,763) | – |
| | 504,064 | 495,414 |

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

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

Particulars of the Company's principal subsidiaries at 30 April 2002 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 | Country/place of establishment/ incorporation | Principal activities and place of operation | Particulars of issued share capital | Interest held | |
|---|---|--|---|---------------|-------------------------|
| | | | | Direct | Indirect |
| Lamex China Limited | British Virgin Islands | Investment holding in Hong Kong | 1 Ordinary share of US\$ 1 each | 100% | – |
| Dongguan Fort Worth Furniture Company Limited | The PRC | Manufacture and trading of office furniture in PRC | HK\$11,500,000 paid-up capital | – | <i>Note (a)</i> |
| Dongguan Lamex Furniture Company Limited | The PRC | Property holding, manufacture and trading of office furniture in PRC | HK\$98,000,000 paid-up capital | – | 100% <i>Note (b)</i> |
| Ezcom Management Services Limited (formerly known as Prime East Holdings Limited) | Hong Kong | Provision of administrative services | 2 Ordinary shares of HK\$1 each | – | 100% |
| Ezcom Technology Limited | Hong Kong | Trading of mobile phones, parts and components | 1,000,000 Ordinary shares of HK\$1 each | – | 90% |

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

Notes:

(a) The subsidiary is a co-operative joint venture between the Group and a PRC party whose respective rights and obligations with respect to the said joint venture are specified in a co-operative joint venture agreements and supplementary agreements. The Group has sole right to manage and operate the joint venture and, after payment of annual fixed fees to a PRC party, is entitled to all profits and is liable for all losses of the joint venture.

(b) The subsidiary is a wholly-owned foreign enterprise.

14. INVENTORIES

| | Group | |
|------------------|-----------------|-----------------|
| | 2002 | 2001 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Finished goods | 87,792 | 74,955 |
| Raw materials | 38,585 | 57,315 |
| Work in progress | 3,087 | 2,934 |
| | <u>129,464</u> | <u>135,204</u> |

At 30 April 2002, all inventories are carried at cost. At 30 April 2001, the carrying amount of inventories that are carried at net realisable value amounted to HK\$2,471,000.

15. ACCOUNTS RECEIVABLE

The Group maintains a defined credit policy. At 30 April 2002, the ageing analysis of the accounts receivable were as follows:

| | Group | |
|-------------------|-----------------|-----------------|
| | 2002 | 2001 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current – 60 days | 116,418 | 121,219 |
| 61 – 120 days | 49,009 | 17,635 |
| 121 – 180 days | 4,467 | 9,691 |
| 181 days and over | 9,906 | 19,668 |
| | <u>179,800</u> | <u>168,213</u> |

16. DUE FROM/(TO) A RELATED COMPANY

(a) The amount due from a related company represented trade receivable from China Kejian Corporation Limited, a company in which Mr. Hou Ziqiang and Mr. Kok Kin Hok are the chairman and the managing director respectively. They have significant control on the day to day operations of this company. The amount due is unsecured, interest-free and has a 90 days credit term.

(b) The amount due to a related company represented trade payable to Ezze Mobile Tech Inc., a company in which Mr. Kok Kin Hok and Mr. Lam Bing Sum held an indirect 40% and a direct 8% equity interest respectively as at 30 April 2002. The amount due is unsecured, interest-free and has a 90 days credit term.

17. BANK BALANCES AND CASH

As at 30 April 2002, bank balances and cash of HK\$33,463,000 (2001: HK\$34,408,000) 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.

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

18. ACCOUNTS AND BILLS PAYABLE

At 30 April 2002, the ageing analysis of the accounts and bills payable were as follows:

| | Group | |
|-------------------|-----------------|-----------------|
| | 2002 | 2001 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current – 60 days | 227,698 | 70,177 |
| 61 – 120 days | 60,692 | 22,155 |
| 121 – 180 days | 3,655 | 2,727 |
| 181 days and over | 2,263 | 2,273 |
| | <u>294,308</u> | <u>97,332</u> |

19. SHARE CAPITAL AND OPTIONS

(a) Share capital

| | Authorised | | | |
|---|---|-----------------|----------------------|-----------------|
| | Ordinary shares of HK\$0.10 each | | | |
| | 2002 | | 2001 | |
| | No. of shares | <i>HK\$'000</i> | No. of shares | <i>HK\$'000</i> |
| At the beginning of the year | 5,000,000,000 | 500,000 | 5,000,000,000 | 500,000 |
| Increase in authorised ordinary share capital (note (i)) | 3,000,000,000 | 300,000 | – | – |
| At the end of the year | <u>8,000,000,000</u> | <u>800,000</u> | <u>5,000,000,000</u> | <u>500,000</u> |

| | Issued and fully paid | | | |
|---|---|-----------------|----------------------|-----------------|
| | Ordinary shares of HK\$0.10 each | | | |
| | 2002 | | 2001 | |
| | No. of shares | <i>HK\$'000</i> | No. of shares | <i>HK\$'000</i> |
| At the beginning of the year | 3,831,560,175 | 383,156 | 2,224,297,450 | 222,430 |
| Issue of shares (note (ii) & (iii)) | 1,216,000,000 | 121,600 | 1,607,186,725 | 160,718 |
| Exercise of share options (note 19(b)) | 48,000,000 | 4,800 | – | – |
| Exercise of warrants | – | – | 76,000 | 8 |
| At the end of the year | <u>5,095,560,175</u> | <u>509,556</u> | <u>3,831,560,175</u> | <u>383,156</u> |

- (i) By a special resolution passed on 6 November 2001, the authorised ordinary share capital of the Company was increased from HK\$500,000,000 to HK\$800,000,000 by the creation of 3,000,000,000 shares of HK\$0.10 each.
- (ii) On 11 September 2001, the Company issued a total 766,000,000 ordinary shares of HK\$0.10 each to independent third parties through share placement at HK\$0.10 per share for cash for general working capital purpose.
- (iii) On 14 November 2001, 450,000,000 shares of ordinary shares of HK\$0.10 each were issued at par as part of consideration for the acquisition of subsidiaries (note 26(a)(i)).

All the new shares issued by the Company during the year rank pari passu with the then existing shares in all respects.

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

(b) Share options

A summary of movements in share options granted under the Company's share option schemes adopted on 4 November 1992 and 25 February 1999 (the "Old Option Schemes") is as follows:

| Date of grant | Exercise price per share | Options | | | Options | | Exercisable period |
|----------------|--------------------------|---------------------------|-------------------------|---------------------------|------------------------|------------------------------|------------------------------------|
| | | outstanding at 1 May 2001 | Granted during the year | Exercised during the year | Lapsed during the year | outstanding at 30 April 2002 | |
| 31 August 2001 | HK\$0.10 | - | 120,000,000 | - | - | 120,000,000 | 1 September 2001 to 31 August 2005 |
| 3 January 2000 | HK\$0.1055 | 206,100,000 | - | (48,000,000) | (90,000,000) | 68,100,000 | 3 January 2000 to 2 January 2004 |
| 3 July 1997 | HK\$0.2619 | 54,648,000 | - | - | (3,312,000) | 51,336,000 | 3 July 1997 to 2 July 2007 |
| 13 July 1996 | HK\$0.3164 | 1,368,000 | - | - | (1,080,000) | 288,000 | 13 July 1996 to 12 July 2006 |

The holders of 68,100,000 and 50,400,000 shares of option granted on 3 January 2000 and 3 July 1997 respectively outstanding as at 30 April 2002 have undertaken that they would not exercise their options.

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.

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

20. RESERVES

| | Group | | | | Total HK\$'000 |
|--|---------------------------|---|--|--|-------------------|
| | Share premium HK\$'000 | Merger reserve on consolidation HK\$'000 | Exchange fluctuation reserve HK\$'000 | Retained earnings/ (accumulated losses) HK\$'000 | |
| At 1 May 2000 | 114,537 | 1,000 | 109 | 135,040 | 250,686 |
| Bonus shares issued | - | - | - | (76,631) | (76,631) |
| Share issue expenses | (2,064) | - | - | - | (2,064) |
| Loss for the year | - | - | - | (22,605) | (22,605) |
| At 30 April 2001 | <u>112,473</u> | <u>1,000</u> | <u>109</u> | <u>35,804</u> | <u>149,386</u> |
| At 1 May 2001 | 112,473 | 1,000 | 109 | 35,804 | 149,386 |
| Premium on issue of shares | 264 | - | - | - | 264 |
| Reserves realised upon disposal of subsidiaries | - | (1,000) | (18) | - | (1,018) |
| Goodwill previously written off against retained earnings realised upon disposal of subsidiaries | - | - | - | 18,631 | 18,631 |
| Loss for the year | - | - | - | (254,633) | (254,633) |
| At 30 April 2002 | <u>112,737</u> | <u>-</u> | <u>91</u> | <u>(200,198)</u> | <u>(87,370)</u> |

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

| | Company | | | Total HK\$'000 |
|----------------------------|------------------------------|------------------------------------|--|-------------------|
| | Share premium HK\$'000 | Contributed surplus HK\$'000 | Retained earnings/ (accumulated losses) HK\$'000 | |
| At 1 May 2000 | 114,537 | 64,817 | 77 | 179,431 |
| Bonus shares issued | – | (64,817) | (11,814) | (76,631) |
| Share issue expenses | (2,064) | – | – | (2,064) |
| Profit for the year | – | – | 11,970 | 11,970 |
| | <u>112,473</u> | <u>–</u> | <u>233</u> | <u>112,706</u> |
| At 30 April 2001 | <u>112,473</u> | – | 233 | 112,706 |
| Premium on issue of shares | 264 | – | – | 264 |
| Loss for the year | – | – | (213,683) | (213,683) |
| | <u>112,737</u> | <u>–</u> | <u>(213,450)</u> | <u>(100,713)</u> |

21. INTEREST-BEARING BORROWINGS

| | Group | |
|--|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Bank borrowings: | | |
| Trust receipt loans – secured | 41,808 | 17,059 |
| Bank overdrafts – secured | – | 545 |
| Bank loans – secured | 62,780 | 42,617 |
| | <u>104,588</u> | <u>60,221</u> |
| Obligations under finance leases | – | 2,344 |
| | <u>104,588</u> | <u>62,565</u> |
| Current portion of interest-bearing borrowings | (97,262) | (60,372) |
| Non-current portion of interest-bearing borrowings | <u>7,326</u> | <u>2,193</u> |

The Group's bank loans and overdrafts and other interest-bearing borrowings were repayable as follows:

| | Trust receipt loans, bank overdrafts and bank loans | | Obligations under finance leases | |
|----------------------------|---|------------------|-------------------------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 |
| Within one year | 97,262 | 59,221 | – | 1,151 |
| In second year | 7,326 | 1,000 | – | 999 |
| In the third to fifth year | – | – | – | 194 |
| | <u>104,588</u> | <u>60,221</u> | <u>–</u> | <u>2,344</u> |

At 30 April 2002, the bank loans and overdrafts were secured by bank deposits of HK\$50,867,000 (2001: HK\$6,000,000) and legal charges on the properties of the Group with an aggregate net book value of HK\$60,475,000 (2001: HK\$182,488,000).

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

22. CONVERTIBLE NOTES – GROUP AND COMPANY

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.

The noteholders have the right to convert any part of the principal amount of the convertible notes into ordinary issued shares of HK\$0.10 each of the Company at the price of HK\$0.10 each per share, 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.

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash inflow from operating activities

| | 2002 | 2001 |
|--|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Loss before taxation | (218,381) | (23,829) |
| Interest income | (1,609) | (1,966) |
| Interest expenses on bank loans and overdrafts | 5,236 | 7,002 |
| Interest element of finance leases | 151 | 321 |
| Bank charges and other borrowing costs | 1,837 | 2,287 |
| Depreciation of owned fixed assets | 24,925 | 20,370 |
| Depreciation of fixed assets held under finance leases | 520 | 791 |
| Amortisation of goodwill | 8,289 | – |
| Loss on disposal of fixed assets | 3,712 | 357 |
| Impairment losses on leasehold land, land use rights and buildings | 103,270 | – |
| Loss on disposal of subsidiaries | 66,431 | – |
| Loss on disposal of long-term investments | 33,921 | – |
| Provision for diminution in value in and non-recovery of loan from long-term investments | – | 4,410 |
| Decrease in inventories | 47,249 | 10,296 |
| Decrease in accounts receivable | 134,916 | 37,425 |
| (Increase)/decrease in prepayments, deposits and other receivables, due from a related company and pledged bank deposits | (165,163) | 15,224 |
| (Decrease)/increase in accounts and bills payable, accrued charges and other payables and due to a related company | (20,079) | 3,448 |
| Decrease in sales deposits received | (3,496) | (11,825) |
| | 21,729 | 64,311 |
| Net cash inflow from operating activities | 21,729 | 64,311 |

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

(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 | |
|--|------------------------------------|----------------|-------------------------------------|--------------|---------------------------------------|---------------|----------------------|----------|-----------------------|----------|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At beginning of the year | 495,629 | 336,967 | 2,344 | 2,146 | 59,676 | 124,383 | - | - | - | - |
| Cash inflow/(outflow) from financing | 81,664 | 49,031 | (454) | (1,052) | 30,045 | (64,707) | - | - | - | - |
| Minority interests' in share of profits | - | - | - | - | - | - | - | - | 24,188 | - |
| Purchase of subsidiaries (note 23(d)) | 45,000 | - | - | - | 31,771 | - | 158,305 | - | (7,083) | - |
| Acquisition of long-term investments | - | 33,000 | - | - | - | - | - | - | - | - |
| Bonus shares issued | - | 76,631 | - | - | - | - | - | - | - | - |
| Inception of finance leases | - | - | - | 1,250 | - | - | - | - | - | - |
| Disposal of subsidiaries (note 23(c)) | - | - | (1,890) | - | (16,904) | - | - | - | - | - |
| At end of the year | <u>622,293</u> | <u>495,629</u> | <u>-</u> | <u>2,344</u> | <u>104,588</u> | <u>59,676</u> | <u>158,305</u> | <u>-</u> | <u>17,105</u> | <u>-</u> |

(c) Disposal of subsidiaries

| | 2002 HK\$'000 | 2001 HK\$'000 |
|---|------------------|------------------|
| Net assets disposed of | | |
| Fixed asset | 90,957 | - |
| Inventories | 22,305 | - |
| Pledged bank deposits | 6,000 | - |
| Bank balances and cash | 3,852 | - |
| Other net current assets | 12,498 | - |
| Interest-bearing borrowings | (18,794) | - |
| | <u>116,818</u> | <u>-</u> |
| Reserves and goodwill previously written off against retained earnings realised upon disposal of subsidiaries | 17,613 | - |
| | <u>134,431</u> | <u>-</u> |
| Loss on disposal | (66,431) | - |
| | <u>68,000</u> | <u>-</u> |
| Satisfied by | | |
| Cash | 68,000 | - |
| | <u>68,000</u> | <u>-</u> |
| Analysis of net inflow in respect of disposal of subsidiaries: | | |
| Cash consideration | 68,000 | - |
| Bank balances and cash disposed | (3,852) | - |
| | <u>64,148</u> | <u>-</u> |

The subsidiaries disposed during the year incurred a net cash outflow of HK\$36,877,000 of the Group's net operating cash flow, paid HK\$1,308,000 in respect of the net returns on investments and servicing of finance, received HK\$888,000 in respect of refund of taxation, received an amount of HK\$2,922,000 from investing activities and repaid a net amount of HK\$7,010,000 for financing activities.

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

(d) Purchase of subsidiaries

| | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Net assets acquired | | |
| Fixed asset | 872 | – |
| Inventories | 63,814 | – |
| Pledged bank deposits | 29,100 | – |
| Bank balances and cash | 28,950 | – |
| Other net current assets | 8,391 | – |
| Interest-bearing borrowings | (31,771) | – |
| Minority interests | 7,083 | – |
| | 106,439 | – |
| Goodwill | 251,866 | – |
| | 358,305 | – |
| Satisfied by | | |
| Allotment of shares | 45,000 | – |
| Cash | 155,000 | – |
| Convertible notes | 158,305 | – |
| | 358,305 | – |
| Analysis of the net outflow in respect of the purchase of subsidiaries: | | |
| Cash consideration | (155,000) | – |
| Bank balances and cash acquired | 28,950 | – |
| | (126,050) | – |

The subsidiaries acquired during the year contributed HK\$60,911,000 of the Group's net operating cash flow, paid HK\$161,000 in respect of the net returns on investments and servicing of finance, paid HK\$5,488,000 in respect of taxation, utilised HK\$14,904,000 for investing activities and obtained HK\$19,711,000 for financing activities.

24. CONTINGENT LIABILITIES

| | Group | | Company | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> | 2001 <i>HK\$'000</i> |
| Bills of exchange discounted with recourse | 30,407 | – | – | – |
| Guarantees for bank loans and overdraft of certain subsidiaries (<i>note (a)</i>) | – | – | – | 69,457 |
| Guarantees for bank loans and overdraft of certain independent third parties (<i>note (a)</i>) | 2,555 | – | 2,555 | – |

(a) As at 30 April 2001, the Company has executed guarantees to certain banks for facilities granted to certain subsidiaries totalling approximately HK\$153,098,000. The utilised amount of such facilities as at that date amounted to HK\$69,457,000. During the year ended 30 April 2002, these subsidiaries were disposed of to independent third parties.

As at 30 April 2002, the guarantees issued by the Group and the Company for the banking facilities of those companies amounted to HK\$16,000,000, of which HK\$2,555,000 was utilised. The guarantees were released on 27 June 2002.

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

25. COMMITMENTS

(a) Capital commitments for property, plant and equipment

| | Group | |
|--|-----------------|-----------------|
| | 2002 | 2001 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Contracted but not provided for | – | 6,025 |
| Authorised by the directors but not contracted for | 121 | 67 |
| | 121 | 6,092 |

The Company had no capital commitments as at 30 April 2002 (2001: Nil).

(b) Commitments under operating leases

As at 30 April 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

| | Group | |
|---|-------------------|-----------------|
| | (restated) | |
| | 2002 | 2001 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Not later than one year | 6,955 | 20,947 |
| Later than one year and not later than five years | 5,887 | 17,094 |
| Later than five years | 1,691 | – |
| | 14,533 | 38,041 |

The Company had no commitments under non-cancellable operating leases at the balance sheet date (2001: Nil).

26. RELATED PARTY TRANSACTIONS

The Group, in the normal course of business, has undertaken the following significant related party transactions during the year:

| | | Group | |
|--|-----|-----------------|-----------------|
| | | 2002 | 2001 |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Acquisition of subsidiaries from Mr. Kok Kin Hok and Mr. Li Tung Wai | (a) | 358,305 | – |
| Sales to China Kejian Corporation Limited | (b) | 481,196 | – |
| Service income from China Kejian Corporation Limited | (b) | 18,121 | – |
| Purchases from Ezze Mobile Tech Inc. | (c) | 145,864 | – |

(a) Acquisition of subsidiaries

- (i) On 14 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 Kin Hok, 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 28 March 2002, the Company further acquired a 27% equity interest in Select Right Development Limited from Mr. Kok Kin Hok 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 27 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\$0.10 each of the Company at the price of HK\$0.10 each per share, 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 or after the date of the conversion.

- (iii) On 28 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 Tung Wai, 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 27 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\$0.10 each of the Company at the price of HK\$0.10 each per share, 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 or after the date of the conversion.

- (iv) On 28 March 2002, the Company was granted an option by Mr. Li Tung Wai to purchase the remaining one-third of the issued share capital of Future Circle Holdings Limited. The exercise price for this 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 Tung Wai. The terms of the convertible note shall be the same as the convertible notes granted to Mr. Kok Kin Hok and Mr. Li Tung Wai as mentioned above.

- (b) China Kejian Corporation Limited is a company in which Mr. Hou Ziqiang and Mr. Kok Kin Hok are the Chairman and the managing director respectively. They have significant control on the day to day operations of this company.
- (c) As at 30 April 2002, Ezze Mobile Tech Inc. is a company in which Mr. Kok Kin Hok and Mr. Lam Bing Sum held an indirect 40% and a direct 8% equity interest respectively.

27. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 5 August 2002.

| | |
|-------------------|--|
| APPENDIX I | FINANCIAL INFORMATION REGARDING THE GROUP |
|-------------------|--|

4. UNAUDITED INTERIM RESULTS

Set out below is an extract of the financial information of the Group from its interim results announcement for the six months ended 31 October 2002, which were published on 30 January 2003.

Consolidated Profit & Loss Account

| | <i>Note</i> | Unaudited | |
|--|-------------|-------------------------|----------------------------|
| | | Six months ended | |
| | | 31 October | |
| | | 2002 | 2001 |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Turnover – Sale of goods | 2 | 1,576,819 | 342,376 |
| Cost of sales | | <u>(1,473,241)</u> | <u>(236,340)</u> |
| Gross profit | | 103,578 | 106,036 |
| Other revenues | | 3,307 | 4,293 |
| Distribution costs | | (53,648) | (90,103) |
| Administrative expenses | | (48,786) | (54,894) |
| Gain on disposal of subsidiaries | 3 | 30,337 | – |
| Loss on disposal of a property | | <u>–</u> | <u>(2,855)</u> |
| Operating profit/(loss) | 4, 5 | 34,788 | (37,523) |
| Finance costs | 6 | <u>(3,039)</u> | <u>(4,306)</u> |
| Profit/(loss) before taxation | | 31,749 | (41,829) |
| Taxation | 7 | <u>(3,616)</u> | <u>–</u> |
| Profit/(loss) after taxation | | 28,133 | (41,829) |
| Minority interests | | <u>(1,540)</u> | <u>–</u> |
| Profit/(loss) attributable to shareholders | | <u><u>26,593</u></u> | <u><u>(41,829)</u></u> |
| Earnings/(loss) per share – Basic | 8 | <u><u>0.52 cent</u></u> | <u><u>(1.03) cents</u></u> |

The Group had no other recognised gains and losses except for those included in the Profit and Loss Account. Accordingly, no separate statement of recognised gains and losses is presented.

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

Consolidated Balance Sheet

| | <i>Note</i> | Unaudited 31 October 2002 HK\$'000 | Audited 30 April 2002 HK\$'000 |
|--|-------------|---|---|
| Goodwill | 9 | 230,984 | 243,577 |
| Fixed assets | 9 | 14,895 | 166,990 |
| Current assets | | | |
| Inventories | | 257,126 | 129,464 |
| Accounts receivables | 10 | 76,278 | 179,800 |
| Prepayments, deposits and other receivables | | 60,518 | 25,885 |
| Due from related companies | 11(a) | 322,725 | 178,804 |
| Pledged bank deposit | | 59,500 | 50,867 |
| Bank balances and cash | | 4,405 | 113,096 |
| | | 780,552 | 677,916 |
| Current liabilities | | | |
| Accounts payable and bills payable | 12 | 321,762 | 294,308 |
| Accrued charges and other payables | | 16,789 | 62,068 |
| Due to a related company | 11(b) | 1,961 | 1,553 |
| Sales deposits received | | – | 14,642 |
| Taxation payable | | 16,556 | 13,728 |
| Current portion of borrowings | 13 | 37,086 | 97,262 |
| | | 394,154 | 483,561 |
| Net current assets | | 386,398 | 194,355 |
| Total assets less current liabilities | | 632,277 | 604,922 |
| Financed by: | | | |
| Share capital | 14 | 509,556 | 509,556 |
| Reserves | | (60,868) | (87,370) |
| Shareholders' funds | | 448,688 | 422,186 |
| Minority interests | | 18,645 | 17,105 |
| Convertible notes | | 158,305 | 158,305 |
| Non-current portion of borrowings | 13 | 6,639 | 7,326 |
| | | 632,277 | 604,922 |

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

Condensed Consolidated Cash Flow Statement

| | Unaudited | |
|---|-------------------------|------------------------------|
| | Six months ended | |
| | 31 October | |
| | 2002 | 2001 |
| | <i>HK\$'000</i> | <i>Restated HK\$'000</i> |
| Net cash (outflow)/inflow from operating activities | (43,838) | 5,258 |
| Net cash outflow from investing activities | (3,990) | (104,655) |
| Net cash (outflow)/inflow from financing | (60,863) | 83,799 |
| Decrease in cash and cash equivalents | (108,691) | (15,598) |
| Cash and cash equivalents at the beginning of the period | 113,096 | 79,217 |
| Cash and cash equivalents at the end of the period | <u>4,405</u> | <u>63,619</u> |
| Analysis of balances of cash and cash equivalents | | |
| Bank balances and cash | 4,405 | 68,443 |
| Bank overdrafts | – | (4,824) |
| | <u>4,405</u> | <u>63,619</u> |

Condensed Consolidated Statement of Changes in Equity

| | Unaudited | | | | | |
|--------------------------|--------------------------|--------------------------|--|---|-----------------------------|-----------------|
| | Share capital | Share premium | Merger reserve on consideration | 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> | <i>HK\$'000</i> |
| 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 | <u>509,556</u> | <u>112,737</u> | <u>–</u> | <u>–</u> | <u>(173,605)</u> | <u>448,688</u> |
| At 1 May 2001 | 383,156 | 112,473 | 1,000 | 109 | 35,804 | 532,542 |
| Issue of shares | 76,600 | (768) | – | – | – | 75,832 |
| Loss for the period | – | – | – | – | (41,829) | (41,829) |
| At 31 October 2001 | <u>459,756</u> | <u>111,705</u> | <u>1,000</u> | <u>109</u> | <u>(6,025)</u> | <u>566,545</u> |

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

Notes:

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 2002 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 2002. The Group has presented its condensed consolidated cash flow statement with effective from 1 May 2002 based on SSAP 15 (revised): “Cash flow statements” issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2002. The comparative figures have been reclassified accordingly. In addition, the following SSAPs issued by the HKSA became effective for accounting periods commencing on or after 1 January 2002 and are applicable to the Group:

| | |
|--------------------|--------------------------------------|
| SSAP 1 (revised): | Presentation of financial statements |
| SSAP 11 (revised): | Foreign currency translation |
| SSAP 25 (revised): | Interim financial reporting |
| SSAP 33: | Discontinuing operations |
| SSAP 34: | Employee benefits |

The adoption of the above SSAPs has no material impact on the Group’s prior year accounts.

2) SEGMENTAL INFORMATION

The Group is principally engaged in the trading of mobile phones, parts and components, manufacturing and trading of office furniture and building materials, together with supply of kitchen cabinets. An analysis of the Group’s turnover and results for the period by business segment is as follows:

| | Unaudited | | | | | | | |
|---|--|--|-------------------------------------|--------------------------|--|--|-------------------------------------|--------------------------|
| | 2002 | | | | 2001 | | | |
| | Office Furniture <i>HK\$'000</i> | Kitchen Cabinets <i>HK\$'000</i> | Mobile Phones <i>HK\$'000</i> | Total <i>HK\$'000</i> | Office Furniture <i>HK\$'000</i> | Kitchen Cabinets <i>HK\$'000</i> | Mobile Phones <i>HK\$'000</i> | Total <i>HK\$'000</i> |
| By principal activity | | | | | | | | |
| Turnover | 151,248 | 17,767 | 1,407,804 | 1,576,819 | 283,274 | 59,102 | – | 342,376 |
| Segment results | (8,238) | (105) | 12,157 | 3,814 | (32,509) | (203) | – | (32,712) |
| Unallocated income/costs | | | | | | | | |
| Bank interest income | | | | 637 | | | | 929 |
| Others | | | | – | | | | (2,885) |
| Loss on disposal of property | | | | – | | | | (2,855) |
| Gain on disposal of subsidiaries | | | | 30,337 | | | | – |
| Operating profit/(loss) | | | | 34,788 | | | | (37,523) |
| Finance costs | | | | (3,039) | | | | (4,306) |
| Profit/(loss) before taxation | | | | 31,749 | | | | (41,829) |
| Taxation | | | | (3,616) | | | | – |
| Profit/(loss) after taxation | | | | 28,133 | | | | (41,829) |
| Minority interests | | | | (1,540) | | | | – |
| Profit/(loss) attributable to shareholders | | | | 26,593 | | | | (41,829) |

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

| | Unaudited | | | |
|---|------------------------------------|-----------------|--------------------------------|-----------------|
| | Six months ended 31 October | | | |
| | Turnover | | Operating profit/(loss) | |
| | 2002 | 2001 | 2002 | 2001 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| By geographical location | | | | |
| Hong Kong | 2,878 | 148,802 | (6,876) | (22,370) |
| The People's Republic of China excluding Hong Kong ("PRC") | 1,573,941 | 181,408 | 41,664 | (15,332) |
| Overseas | – | 12,166 | – | 179 |
| | <u>1,576,819</u> | <u>342,376</u> | <u>34,788</u> | <u>(37,523)</u> |

3) DISCONTINUING OPERATION

The Chairman of the Company has stated in his statement in the annual report of the Group for the financial year ended 30 April 2002 that, in view of the poor performance of the office furniture and kitchen cabinet business and the fact that the market condition is not expected to improve much in the coming years, the Board was considering different solutions to maximize the interests of the shareholders of the Company. During the current period, certain subsidiaries engaged in this business were disposed of to Mr. Kok Kin Hok, the chairman of the Company, for a consideration of HK\$2,000,000, resulting a gain of approximately HK\$30.34 million to the Group.

The remaining carrying amount of total assets and liabilities of the Group related to this business amounted to approximately HK\$79.13 million and HK\$128.26 million respectively, as at 31 October 2002.

4) OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging the following:

| | Unaudited | |
|--------------------------|-------------------------|-----------------|
| | Six months ended | |
| | 31 October | |
| | 2002 | 2001 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Amortisation of goodwill | 12,593 | – |
| Cost of inventories sold | 1,473,241 | 218,901 |
| Depreciation: | | |
| Owned fixed assets | 10,192 | 13,537 |
| Leased fixed assets | – | 464 |
| | <u>1,492,926</u> | <u>232,902</u> |

5) STAFF COSTS

| | Unaudited | |
|---|-------------------------|-----------------|
| | Six months ended | |
| | 31 October | |
| | 2002 | 2001 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Salaries | 38,947 | 88,260 |
| Pension costs-defined contribution plan | 625 | 1,273 |
| | <u>39,572</u> | <u>89,533</u> |

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

6) FINANCE COSTS

| | Unaudited | |
|--|-------------------------|-----------------|
| | Six months ended | |
| | 31 October | |
| | 2002 | 2001 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest on bank loans and overdrafts wholly repayable within five years | 2,964 | 3,144 |
| Interest element of finance leases | – | 137 |
| Bank charges and other borrowing costs | 75 | 1,025 |
| | <u>3,039</u> | <u>4,306</u> |

7) TAXATION

| | Unaudited | |
|-----------------------|-------------------------|-----------------|
| | Six months ended | |
| | 31 October | |
| | 2002 | 2001 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Hong Kong profits tax | <u>3,616</u> | <u>–</u> |

Hong Kong profits tax has been provided at the rates of 16% on the estimated assessable profit for the period (2001: Nil). No provision for PRC income tax is made as the PRC subsidiaries of the Company have no assessable profit for the period (2001: Nil).

8) EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on the Group's earnings attributable to shareholders of HK\$26,593,000 (2001 loss: HK\$41,829,000) and the weighted average of 5,095,560,175 shares (2001: 4,043,875,392 shares) in issue during the period.

No diluted earnings/(loss) per share has been presented as the exercise of subscription rights attached to share options of the Company would be anti-dilutive (2001: Nil).

9) CAPITAL EXPENDITURE

| | Unaudited | |
|----------------------------------|------------------|---------------------|
| | Goodwill | Fixed assets |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Six months ended 31 October 2002 | | |
| Opening net book amount | 243,577 | 166,990 |
| Additions | – | 4,506 |
| Disposals | – | (146,409) |
| Depreciation/amortisation change | (12,593) | (10,192) |
| Closing net book amount | <u>230,984</u> | <u>14,895</u> |

At 31 October 2002, the net book value of leasehold land and buildings pledged as security for the Group's bank loan and overdraft facilities amounted to HK\$13,831,000 (30 April 2002: HK\$60,475,000).

10) ACCOUNTS RECEIVABLE

A defined credit policy is maintained within the Group. The age analysis as at 31 October 2002 is as follows:

| | Unaudited | Audited |
|--------------|------------------------|----------------------|
| | 31 October 2002 | 30 April 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 0–60 days | 74,513 | 116,418 |
| 61–120 days | – | 49,009 |
| 121–180 days | 81 | 4,467 |
| >180 days | 1,684 | 9,906 |
| | <u>76,278</u> | <u>179,800</u> |

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

11) DUE FROM/(TO) RELATED COMPANIES

| (a) | | Unaudited 31 October 2002 <i>HK\$'000</i> | Audited 30 April 2002 <i>HK\$'000</i> |
|--|------|---|---|
| Due from: | | | |
| China Kejian Corporation Limited | (i) | 167,990 | 178,804 |
| Lamex China Limited | (ii) | 154,735 | – |
| | | 322,725 | 178,804 |
| (i) The amount represented trade receivable from China Kejian Corporation Limited, a company in which Mr. Hou Ziqiang and Mr. Kok Kin Hok, directors of the Company, are the chairman and the managing director respectively. They have significant control on the day to day operations of this company. The amount due is unsecured, interest-free and has a 90 days credit term. | | | |
| (ii) The amount represented loan receivable from Lamex China Limited, a company acquired by Mr. Kok Kin Hok from the Group in October 2002, which 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 in August 2003. The maximum balance outstanding during the period amounted to HK\$154,735,000. | | | |
| (b) The amount due to a related company represented trade payable to Ezze Mobile Tech Inc., a company in which Mr. Kok Kin Hok and Mr. Lam Bing Sum, directors of the Company, held an indirect 33.98% and a direct 6.80% equity interest respectively as at 31 October 2002. The amount due is unsecured, interest-free and has a 90 days credit term. | | | |

12) ACCOUNTS PAYABLE AND BILLS PAYABLE

The age analysis as at 31 October 2002 is as follows:

| | Unaudited 31 October 2002 <i>HK\$'000</i> | Audited 30 April 2002 <i>HK\$'000</i> |
|--------------|---|---|
| 0–60 days | 282,238 | 227,698 |
| 61–120 days | 38,199 | 60,692 |
| 121–180 days | 4 | 3,655 |
| >180 days | 1,321 | 2,263 |
| | 321,762 | 294,308 |

13) BORROWINGS

| | Unaudited 31 October 2002 <i>HK\$'000</i> | Audited 30 April 2002 <i>HK\$'000</i> |
|-----------------------------------|---|---|
| Borrowings – Secured: | | |
| Trust receipt loans | 35,731 | 41,808 |
| Bank loans | 7,994 | 62,780 |
| | 43,725 | 104,588 |
| Current portion of borrowings | (37,086) | (97,262) |
| Non-current portion of borrowings | 6,639 | 7,326 |

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

At 31 October 2002, the Group's bank loans and overdrafts were repayable as follows:

| | Trust receipts loans, bank overdrafts and bank loans | |
|--------------------|---|----------------------|
| | Unaudited | Audited |
| | 31 October 2002 | 30 April 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year | 37,086 | 97,262 |
| In the second year | 6,639 | 7,326 |
| | <u>43,725</u> | <u>104,588</u> |

14) SHARE CAPITAL

| | No. of Shares | HK\$'000 |
|--|----------------------|-----------------|
| <i>Authorised:</i> | | |
| 8,000,000,000 ordinary shares of HK\$0.10 each at 31 October 2002 and 30 April 2002 | <u>8,000,000,000</u> | <u>800,000</u> |
| <i>Issued and fully paid ordinary shares of HK\$0.10 each:</i> | | |
| At 1 May 2001 | 3,831,560,175 | 383,156 |
| Issue of new shares (<i>Note (a) & (b)</i>) | 1,216,000,000 | 121,600 |
| Exercise of Share options | 48,000,000 | 4,800 |
| | <u>5,095,560,175</u> | <u>509,556</u> |

Note (a): On 11 September 2001, the Company issued a total of 766,000,000 ordinary shares of HK\$0.10 each to independent third parties at HK\$0.10 per share.

(b): On 14 November 2001, 450,000,000 shares of ordinary shares of HK\$0.10 each were issued at par as part of consideration for the acquisition of certain subsidiaries.

15) COMMITMENTS

(a) Capital commitments for property, plant and equipment

| | Unaudited | Audited |
|---|------------------------|----------------------|
| | 31 October 2002 | 30 April 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Authorised by the directors but not contracted for | – | 121 |
| | <u>–</u> | <u>121</u> |

(b) Commitments under operating leases

As at 31 October 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

| | Unaudited | Audited |
|--|------------------------|----------------------|
| | 31 October 2002 | 30 April 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year | 711 | 6,955 |
| In the second to fifth years inclusive | 901 | 5,887 |
| Later than five years | – | 1,691 |
| | <u>1,612</u> | <u>14,533</u> |

APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP

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.

The noteholders have the right to convert any part of the principal amount of the convertible notes into ordinary issued shares of HK\$0.10 each of the Company at the price of HK\$0.10 each per share, 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 11(a)(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 counter parties:

| | | Unaudited Six months ended 31 October | |
|--|-------------|--|--------------------------|
| | <i>Note</i> | 2002 HK\$'000 | 2001 HK\$'000 |
| Sales to China Kejian Corporation Limited | <i>(a)</i> | 1,085,103 | – |
| Service income from China Kejian Corporation Limited | <i>(a)</i> | 1,014 | – |
| Purchases from Ezze Mobile Tech. Inc. | <i>(b)</i> | 92,800 | – |
| Disposal of subsidiaries to Mr. Kok Kin Hok | <i>3</i> | 2,000 | – |

(a) China Kejian Corporation Limited is a company in which Mr. Hou Ziqiang and Mr. Kok Kin Hok, directors of the Company, are the Chairman and the managing director respectively. They have significant control on the day to day operations of this company.

(b) As at 31 October 2002, Ezze Mobile Tech Inc. was a company in which Mr. Kok Kin Hok and Mr. Lam Bing Sum held an indirect 33.98% and a direct 6.80% equity interest respectively.

18) SUBSEQUENT EVENTS

In November 2002, the Company acquired the entire issued share capital of Global Direction Limited, a company holding 100% equity interest in Scm (Holdings) Limited which in turn held 33.98% equity in Ezze Mobile Tech., Inc. (“Ezze Mobile”) from Mr. Kok Kin Hok, the Chairman, for a consideration of approximately HK\$88,000,000 by the issue of a convertible note with an aggregate equivalent amount.

The convertible note is unsecured, interest-free and repayable on or before 7 November 2004. The noteholder has the right to convert any part of the principal amount of the convertible note into ordinary issued shares of HK\$0.10 each of the Company at the price of HK\$0.10 each per share, 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 or after the date of the conversion.

5. MATERIAL CHANGES

The Directors are not aware of any material change in the financial or trading position or prospects of the Group since 30 April 2002, the date to which the latest audited financial statements of the Company was made up.

6. INDEBTEDNESS STATEMENT

As at the close of business on 31 January 2003, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had aggregate borrowings of approximately HK\$289.6 million, comprising secured trust receipt loans of approximately HK\$45.0 million, bills payable of approximately HK\$29.2 million, secured bank loans of approximately HK\$20.1 million and unsecured Convertible Notes of approximately HK\$195.3 million.

The Group's trust receipt loans and bank loans are secured by the followings:

- (a) fixed charges on bank deposits of approximately HK\$59.6 million;
- (b) fixed charges on certain properties of the Group with net book value of approximately HK\$13.8 million;
- (c) personal guarantees from Mr. Kok and Mr. Li; and
- (d) corporate guarantees by the Company and certain of its subsidiaries.

Convertible Notes of approximately HK\$113.9 million and HK\$81.4 million were issued by the Company to Mr. Kok and Mr. Li respectively. An amount of HK\$158.3 million of these Convertible Notes is repayable on or before 27 March 2004 and the remaining balance of approximately HK\$37 million is repayable on or before 7 November 2004. The noteholders have the right to convert any part of the principal amount of the Convertible Notes into Existing Shares of the Company at the price of HK\$0.10 each, subject to further adjustments upon the Capital Restructuring and Open Offer, at any time on or before the expiry date of the Convertible Notes.

Save as aforesaid and apart from intra-group liabilities and normal trade and bills payables, the Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at the close of business on 31 January 2003.

7. WORKING CAPITAL STATEMENT

The Directors are of the opinion that, after taking into account the banking facilities available to it, internally generated funds and the estimated net proceeds from the Open Offer, and in the absence of unforeseen circumstances, the Group has sufficient working capital for its present requirements.

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| APPENDIX I FINANCIAL INFORMATION REGARDING THE GROUP |
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8. STATEMENT OF PRO FORMA UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following statement of pro forma unaudited adjusted consolidated net tangible assets of the Group is based on the audited consolidated net assets of the Group as at 30 April 2002, and takes into account the effects of certain transactions thereafter and the Open Offer:

| | <i>HK\$'000</i> |
|---|-----------------|
| Audited consolidated net assets of the Group as at 30 April 2002 | 422,186 |
| <i>Less:</i> Intangible assets of the Group as at 30 April 2002 | (243,577) |
| Unaudited profit for the six months ended 31 October 2002 | 26,593 |
| Unaudited consolidated net tangible assets of the Group immediately prior to the Open Offer | 205,202 |
| <i>Add:</i> Estimated net proceeds from the Open Offer | 49,000 |
| Pro forma unaudited adjusted consolidated net tangible assets of the Group immediately following the Open Offer | 254,202 |
| Unaudited consolidated net tangible assets of the Group per Existing Share immediately prior to the Capital Restructuring becoming effective and prior to the Open Offer (based on 5,095,560,175 Existing Shares in issue at the Latest Practicable Date) | HK\$0.040 |
| Unaudited consolidated net tangible assets of the Group per Adjusted Share immediately after the Capital Restructuring becomes effective but prior to the Open Offer (based on 101,911,203 Adjusted Shares equivalent to 5,095,560,175 Existing Shares in issue at the Latest Practicable Date) | HK\$2.014 |
| Pro forma unaudited adjusted consolidated net tangible assets of the Group per Adjusted Share immediately after the Capital Restructuring and the Open Offer become effective (based on 101,911,203 Adjusted Shares equivalent to 5,095,560,175 Existing Shares in issue at the Latest Practicable Date, plus 509,556,015 Offer Shares to be issued under the Open Offer) | HK\$0.416 |

The information set out in this appendix serves as the explanatory statement required under Rule 10.06(1)(b) of the Listing Rules to provide Shareholders with all the information reasonably necessary for them to make an informed decision on whether to vote for or against the ordinary resolution approving the Repurchase Mandate.

SHARE CAPITAL OUTSTANDING

As at the Latest Practicable Date, the aggregate nominal amount of issued share capital of the Company was HK\$509,556,018 comprising 5,095,560,175 Existing Shares. Immediately upon completion of the Open Offer (assuming no Options are exercised), the aggregate nominal amount of issued share capital of the Company will be HK\$6,114,672 comprising of 611,467,218 Adjusted Shares. Subject to the passing of the relevant ordinary resolution approving the Repurchase Mandate and no further Shares are issued prior to the Special General Meeting, the Company will be allowed under the Repurchase Mandate to repurchase a maximum of 61,146,721 Adjusted Shares following completion of the Open Offer.

REASONS FOR REPURCHASES

The Directors believe that it is in the best interests of the Company and the Shareholders to have a general authority from the Shareholders to enable the Directors to repurchase securities in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the value of the Company's securities and/or its earnings per Adjusted Share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders.

FUNDING OF REPURCHASES

Repurchases of the Company's securities must be funded out of funds legally available for the purpose in accordance with the memorandum of association and bye-laws of the Company and the laws of Bermuda, being capital paid up on the shares to be repurchased or out of the funds of the Company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. The premium payable over the par value of shares to be purchased must be provided for out of funds of the Company otherwise available for dividend or distribution or out of the Company's share premium account before the shares are repurchased. It is envisaged that the funds required for any repurchase would be derived from such sources.

There may be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the audited financial statements as at 30 April 2002) in the event that the Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

DISCLOSURE OF INTEREST

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has a present intention to sell securities to the Company if the Repurchase Mandate is approved by the Shareholders.

No connected person (as defined in the Listing Rules) of the Company has notified the Company that he/she has a present intention to sell securities to the Company, or has undertaken not to do so, in the event that the Company is authorised to make repurchases of its own securities.

UNDERTAKING OF THE DIRECTORS

The Directors have undertaken to the Stock Exchange that they will exercise the power of the Company to make repurchases pursuant to the Repurchase Mandate in accordance with the Listing Rules, the laws of Bermuda and the Memorandum of Association and Bye-laws of the Company.

During each of the six months preceding the date of this circular, no securities were repurchased by the Company.

SHARE PRICES

The highest and lowest prices at which the Shares were traded on the Stock Exchange during each of the 12 calendar months last preceding the Latest Practicable Date were as follows:

| | Highest <i>HK\$</i> | Lowest <i>HK\$</i> |
|-------------|-------------------------------|------------------------------|
| 2002 | | |
| February | 0.1310 | 0.1080 |
| March | 0.1410 | 0.1180 |
| April | 0.1630 | 0.1250 |
| May | 0.1550 | 0.1270 |
| June | 0.1350 | 0.0950 |
| July | 0.1180 | 0.0540 |
| August | 0.1010 | 0.0570 |
| September | 0.0970 | 0.0760 |
| October | 0.0850 | 0.0620 |
| November | 0.0750 | 0.0580 |
| December | 0.0640 | 0.0540 |
| 2003 | | |
| January | 0.0600 | 0.0270 |
| February | 0.0360 | 0.0230 |

GENERAL

If as a result of a repurchase of the Adjusted Shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. As a result, a Shareholder or a group of Shareholders, acting in concert with each other could, depending on the level of increase of the Shareholders' interest, obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Immediately after the Open Offer (assuming no Options are exercised) becomes effective, Mr. Kok will through the Controlling Shareholder be the beneficial owner of Adjusted Shares representing not less than approximately 33.3% and not more than approximately 88.9% of the enlarged issued share capital of the Company. In the event that the Directors exercise in full the power to repurchase the Adjusted Shares which is proposed to be granted pursuant to a resolution to be considered at the SGM, the shareholding of Mr. Kok,

together with its associates, in the Company would be increased to approximately not less than approximately 37% and not more than approximately 98.7% of the then issued share capital of the Company and Mr. Kok and parties acting in concert with him may be required to make a general offer for securities of the Company. Save as disclosed in this paragraph, the Directors are not aware of any consequences which may arise under the Takeovers Code as a result of any repurchase made under the Repurchase Mandate.

1. RESPONSIBILITY

- (a) This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Company. The information contained herein relating to the Group has been supplied by the Directors who have taken all reasonable care to ensure that the information stated herein is accurate. The Directors jointly and severally accept full responsibility for the accuracy of such information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the opinions expressed by them herein have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement contained herein misleading.
- (b) The information contained in this circular relating to the Underwriter has been supplied by Mr. Kok as the sole director of the Underwriter. Mr. Kok accepts full responsibility for the accuracy of the information in this circular relating to the Underwriter and confirms, having made all reasonable enquiries, that to the best of his knowledge and belief, the opinions expressed by him herein have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement contained herein misleading.
- (c) The issue of this circular has been approved by the Board and Mr. Kok as the sole director of the Underwriter.

2. MARKET PRICES

- (a) The table below sets out the closing prices of the Shares quoted on the Stock Exchange on the last day on which trading in the Shares took place in each of the six calendar months immediately preceding the date of the announcement made by the Company on 29 January 2003.

| Date | Closing price of the Existing Shares HK\$ |
|-------------------------|--|
| 31 July 2002 | 0.0740 |
| 30 August 2002 | 0.0950 |
| 30 September 2002 | 0.0830 |
| 31 October 2002 | 0.0620 |
| 29 November 2002 | 0.0630 |
| 31 December 2002 | 0.0590 |
| 16 January 2003 | 0.0520 |
| Latest Practicable Date | 0.0230 |

- (b) The highest and lowest closing prices of the Shares quoted on the Stock Exchange during the period that began 6 months prior to the date of the Announcement and ended on the Latest Practicable Date were HK\$0.097 per Share on 26 August 2002 and HK\$0.023 per Share on 21 March 2003 respectively.
- (c) The closing price of the Shares quoted on the Stock Exchange on the Latest Practicable Date was 0.023 per Share.

3. DISCLOSURE OF INTERESTS

- (i) Other than as disclosed in paragraph 3(i) of this Appendix, none of the Underwriter and parties acting in concert with it had any interest in Shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, the Underwriter and persons acting in concert with it (including the Controlling Shareholder) were interested in a total of 1,699,092,000 Shares, representing approximately 33.3% of the issued share capital of the Company, the breakdown of which is as follows:

| Underwriter and any persons acting in concert | Number of Shares as at the Latest Practicable Date | Outstanding Options as at the Latest Practicable Date | Outstanding Convertible Notes as at the Latest Practicable Date | Approximate percentage of the issued share capital as at the Latest Practicable Date |
|---|--|---|---|--|
| Underwriter | – | – | – | – |
| Controlling Shareholder | 1,699,092,000 | – | – | 33.3% |
| Mr. Kok (sole director and sole beneficial owner of the Underwriter and the Controlling Shareholder and a Director) | – | 30,000,000 | 1,139,141,100 | – |
| Total: | <u>1,699,092,000</u> | | | <u>33.3%</u> |

The Company does not have any shareholding interest in the Underwriter.

The Company has not dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Underwriter during the period that began 6 months prior to the date of the Announcement and ended on the Latest Practicable Date.

Save for Mr. Kok's subscription of the subscriber shares in the Underwriter, none of the Directors has dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Underwriter during the period that began 6 months prior to the date of the Announcement and ended on the Latest Practicable Date.

There are no shareholdings in the Company owned or controlled by persons of the type specified in paragraph 2(iii) of Schedule II of the Takeovers Code.

(ii) Directors of the Company

As at the Latest Practicable Date, the interests of the Directors (including their respective spouses, infant children, related trusts and companies controlled by them) in the Shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Company and its associated corporations (within the meaning of the SDI Ordinance), which require notification pursuant to section 28 of the SDI Ordinance (including interests in which any such director is taken or deemed to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which were required to be entered in the register kept by the Company pursuant to section 29 of the SDI Ordinance, or which were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, were as follows:

The Company*Interests in Shares*

| Name of Director | Number of Shares held and nature of interest | | | Total |
|-------------------------|--|------------------|-----------------|---------------|
| | Personal Interest | Family Interests | Other Interests | |
| Mr. Kok (<i>Note</i>) | – | – | 1,699,092,000 | 1,699,092,000 |
| Lian Song Qing | 20,000,000 | – | – | 20,000,000 |

Interests in Options

| Name of Director | Number of Shares held (if the Options are exercised) and nature of interest | | | Total |
|------------------|--|------------------|-----------------|------------|
| | Personal Interest | Family Interests | Other Interests | |
| Mr. Kok | 30,000,000 | – | – | 30,000,000 |
| Lam Bing Sum | 20,000,000 | – | – | 20,000,000 |

Note: These shares are beneficially owned by the Controlling Shareholder.

Interests in Convertible Notes

| Name of Director | Number of Shares held (if the Convertible Notes are exercised) and nature of interest | | | Total |
|------------------|---|------------------|-----------------|---------------|
| | Personal Interest | Family Interests | Other Interests | |
| Mr. Kok | 1,139,141,100 | – | – | 1,139,141,100 |

Associated corporation

Interests in Ezze Mobile Tech., Inc. (in which the Company has 33.98% indirect interest)

| Name of Director | Percentage of shareholding and nature of interest | | | Total |
|-----------------------------|---|------------------|-----------------|--------|
| | Personal Interest | Family Interests | Other Interests | |
| Kok Kin Hok (<i>Note</i>) | | | 33.98% | 33.98% |
| Lam Bing Sum | 6.80% | – | – | 6.80% |

Note: by virtue of Mr. Kok's indirect interests in the Company through the Controlling Shareholder.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interests in any equity or debt securities of the Company or any associated corporations (with the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which he was taken or deemed to have under Section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date save for Mr. Kok, none of the Directors had any interests in the shares, convertible securities warrants, options or derivatives in respect of securities which carry voting rights in the Underwriter.

Substantial Shareholder

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors, except as disclosed below, the following person was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group or had any options in respect of such capital.

| Name of substantial Shareholder | <i>Note</i> | Number of Shares held | % |
|---------------------------------|-------------|-----------------------|------|
| Anglo Express Group Limited | <i>1</i> | 1,699,092,000 | 33.3 |

Note 1: Anglo Express Group Limited is beneficially wholly-owned by Mr. Kok.

Save as disclosed above and so far as is known to the Directors, as at the Latest Practicable Date, no person was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a subsidiary of the Company, or in any options in respect of such share capital.

(iii) The Company and subsidiaries

None of the subsidiaries of the Company, nor pension funds of the Company or of any subsidiary of the Company, nor any fund managed on a discretionary basis by any fund manager connected with the Company had any interests in the Shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Company as at the Latest Practicable Date.

(iv) Others

As at the Latest Practicable Date, none of Baron Capital Limited, Dao Heng Securities Limited, PricewaterhouseCoopers, the Independent Financial Adviser or any of their respective holding companies or respective subsidiaries had any interests in the Shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights in the Company or any shareholding in any member of the Group or had the right to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

4. DISCLOSURE OF DEALINGS**(i) Other Directors of the Company**

Save as disclosed in paragraph 3(ii) of this Appendix, none of the Directors or parties acting in concert with any of them had any interests in or dealt in the Shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Company during the period that began 6 months prior to the date of the Announcement and ended on the Latest Practicable Date.

(ii) Others

None of the subsidiaries of the Company, the pension fund of the Company or of any subsidiary of the Company, nor any fund managed on a discretionary basis by any fund manager connected with the Company had dealt in any Shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Company during the period that began 6 months prior to the date of the Announcement and ended on the Latest Practicable Date.

None of Baron Capital Limited, Dao Heng Securities Limited, PricewaterhouseCoopers, the Independent Financial Adviser or any of their respective holding companies or respective subsidiaries had dealt in any Shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights in the Company during the period between the date of the Announcement and the Latest Practicable Date.

5. ARRANGEMENTS AFFECTING DIRECTORS

(i) None of the Directors have entered into any service agreement with the Company or any of its subsidiaries or associated companies which have more than 12 months to run.

- (ii) There are no existing or proposed agreements or arrangements between Mr. Kok and parties acting in concert with him, any of the other Directors and any other person, which are conditional upon completion of the Open Offer or otherwise connected with the Open Offer and/or the Whitewash Waiver.
- (iii) No persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Code with the Company or any persons acting in concert with the Company had dealt for value in the Shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights in the Company during the period that begin 6 months prior to the Announcement and ending on the Latest Practicable Date.
- (iv) No benefit has been or will be given to any Director as compensation for loss of office or otherwise in connection with the Open Offer or the Whitewash waiver.
- (v) Save for the Underwriting Agreement entered into between the Underwriter and the Company, no other agreement, arrangement or understanding has been made or entered into between the Underwriter or any person acting in concert with it and any of the Directors or recent Directors or Shareholders or recent Shareholders of the Company which is conditional on or dependent upon the outcome of the Open Offer or otherwise connected with the Open Offer.
- (vi) Save for the Underwriting Agreement entered into by the Underwriter, which is beneficially wholly owned by Mr. Kok, a Director, none of the Directors have entered into any agreement or arrangement with any other person which is conditional on or dependent upon the outcome of the Open Offer or otherwise connected with the Open Offer.

6. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company) have been entered into by the Company or its subsidiaries within the two years preceding the date of this circular and are or may be material:

- (a) the placing agreement dated 31 August 2001 made between the Company as the issuer and Dao Heng Securities Limited as the placing agent in respect of placing 766,000,000 Shares at the price of HK\$0.10 per Share;
- (b) the sale and purchase agreement dated 17 September 2001 made between the Company as the purchaser and Mr. Kok as the vendor in respect of the acquisition of 73% equity interests in Select Right Developments Limited;
- (c) the agreement for the sale and purchase of shares dated 22 November 2001 between the Company as the vendor and Dynamic Fortune Group Limited as the purchaser in respect of the entire share capital of South Horizon Inc.;

- (d) the sale and purchase agreement dated 4 February 2002 made between the Company as the purchaser and Mr. Kok as the vendor in respect of the acquisition of 27% equity interests in Select Right Developments Limited;
- (e) the sale and purchase agreement dated 4 February 2002 made between the Company as the purchaser and Mr. Li as the vendor in respect of the acquisition of two-third of the entire issued share capital of Future Circle Holdings Limited;
- (f) the option agreement dated 4 February 2002 made between the Company as the grantee and Mr. Li as the grantor in respect of the grant of an option to the Company to purchase Mr. Li's one share in Future Circle Holdings Limited;
- (g) the agreement for sale and purchase of share dated 16 April 2002 made between Jabat Investments Limited as the vendor and Total Profit Group Limited as the purchaser in respect of the disposal of the entire share capital of Hawkweed Investments Limited;
- (h) the agreement for sale and purchase of share dated 16 April 2002 made between Jabat Investments Limited as the vendor and Total Profit Group Limited as the purchaser in respect of the disposal of the entire share capital of Flash Hope Limited;
- (i) the agreement for sale and purchase of shares dated 19 April 2002 made between Rising Top Limited as the vendor and Hopping Technology Limited as the purchaser in respect of the disposal of 16.5% of the entire share capital of iD Innovation Limited;
- (j) the agreement for sale and purchase of shares dated 30 April 2002 made between the Company as the vendor and Pure Element Holding Limited as the purchaser in respect of the disposal of the entire share capital of High Citadel Inc.;
- (k) the share sale and purchase agreement dated 19 August 2002 made between the Company as the vendor and Mr. Kok as the purchaser in respect of the disposal of Lamex China Limited and a related loan;
- (l) the share sale and purchase agreement dated 18 September 2002 and the supplemental agreement dated 20 September 2002 made between the Company as the purchaser and Mr. Kok as the vendor in respect of the acquisition of the entire share capital of Global Direction Limited; and
- (m) the underwriting agreement dated 29 January 2003 between the Company and All About Investments Limited in respect of the underwriting of the Offer Shares.

8. QUALIFICATION

The following is the qualification of the expert who has given an opinion or advice which is contained or referred to in this circular:

| Name | Qualification |
|----------------------------------|--|
| First Asia Finance Group Limited | an investment adviser registered under the Securities Ordinance (Cap.333 of the Laws of Hong Kong) |

9. CONSENT

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and the references to its name, as the case may be, in the form and context in which it appears.

10. GENERAL

- (i) The registered office of the Underwriter is situated at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. The correspondence address of the Underwriter is Unit 1C&1D, 14/F., Tower 2, Admiralty Centre, 18 Harcourt Road, Hong Kong.
- (ii) The financial advisers to the Underwriter are Baron Capital Limited and Dao Heng Securities Limited.
- (iii) The secretary of the Company is Cheung Kwok Yu, *CFA, FCCA*.
- (iv) In the case of any inconsistency, the English texts of this circular and the form of proxy shall prevail over the Chinese texts.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any weekday (except public holidays) at the offices of Richards Butler at 16-20 Chater Road, 20/F Alexandra House, Central, Hong Kong, from the date of this circular up to and including the date of the SGM.

- (i) the memorandum of association and bye-laws of the Company;
- (ii) the letter from the Independent Board Committee, the text of which is set out on pages 26 to 27 of this circular;
- (iii) the letter from the Independent Financial Adviser, the text of which is set out on pages 28 to 62 of this circular;
- (iv) the annual reports of the Company for the two financial years ended 30 April 2002;
- (v) the interim report of the Company for the six months ended 31 October 2002;
- (vi) the letters of consent referred to under the section headed "Consent" in this Appendix;
- (vii) all material contracts referred to under the section headed "Material Contracts" in this Appendix; and
- (viii) undertakings by the Controlling Shareholder, Mr. Kok, Mr. Lam and Mr. Li referred to on pages 12 and 13 of this Circular.

NOTICE OF SPECIAL GENERAL MEETING

EZCOM

BRING TECHNOLOGY TO LIFE

EZCOM HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a special general meeting of Ezcom Holdings Limited (the “Company”) will be held at Aberdeen Room, Level 3, JW Marriot Hotel, Pacific Plaza, 88 Queensway, Hong Kong on 17 April 2003 at 3:30 p.m. for the purpose of considering and, if thought fit, passing, the following resolutions as ordinary resolutions (with or without modifications) or as a special resolution, as indicated below:

Special Resolution

1. **THAT**, conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting the permission to deal in, shares of HK\$0.01 each in the issued share capital of the Company upon the Capital Reorganisation (as defined below) becoming effective, with effect from 9:30 a.m. on the next business day (not being a Saturday) following the date on which this resolution is passed (the “Effective Date”):-
 - (a) every fifty (50) shares of HK\$0.10 each in issue on the Effective Date be consolidated into one (1) share of HK\$5.00 each in the capital of the Company (the “Consolidation”);
 - (b) subject to and forthwith upon the Consolidation taking effect, the issued share capital of the Company be reduced by cancelling paid up capital to the extent of HK\$4.99 on each of the shares of HK\$5.00 in the capital of the Company in issue arising from the Consolidation on the Effective Date (the “Capital Reduction”) so as to form fully-paid up shares of HK\$0.01 each in the capital of the Company (“Reduced Shares”);
 - (c) subject to and forthwith upon the Capital Reduction taking effect, the credit amount arising from the Capital Reduction be credited to the contributed surplus account of the Company where it may be applied by the directors of the Company in accordance with the bye-laws of the Company and all applicable laws (the “Application of Credit”);
 - (d) subject to and forthwith upon the Capital Reduction taking effect, all of the authorised but unissued shares of HK\$0.10 each in the capital of the Company (including those authorised but unissued shares arising from the Capital Reduction) be sub-divided into ten (10) Reduced Shares (the “Subdivision”); and
 - (e) the directors of the Company be and are hereby authorised generally to do all such acts, deeds and things as they shall, in their absolute discretion, deem appropriate to effect and implement the Consolidation, the Capital Reduction, the Application of Credit and the Subdivision (collectively, the “Capital Reorganisation”).

NOTICE OF SPECIAL GENERAL MEETING

Ordinary Resolutions

2. **“THAT**, subject to the fulfilment of the conditions in respect of the Open Offer (as defined below) as set out in the circular dated 25 March 2003 (the “Circular”) a copy of which has been tabled at the meeting and initialled by the Chairman for the purpose of identification:
 - (a) the offer (the “Open Offer”) of ordinary shares (“Offer”) of HK\$0.01 each in the capital of the Company (the “Share(s)”) to the holders of Shares whose names appeared on the register of members of the Company at the close of business on 29 April 2003 on the basis of assured allotments of five Offer Shares for every Share then held at the subscription price of HK\$0.10 per Offer Share and otherwise on the terms of the Open Offer as set out in the Circular be and is hereby approved, and the directors of the Company be and are hereby authorised to allot and issue the Offer Shares pursuant to or in connection with applications in the Open Offer; and
 - (b) the Underwriting Agreement (as defined in the Circular), be and is hereby approved and any director of the Company (other than Mr. Kok Kin Hok) be and is hereby authorised to do such acts or execute such other documents which may be necessary, desirable or expedient in his opinion to carry into effect or to give effect to the terms of the Underwriting Agreement, including such changes and amendments thereto as any one director (other than Mr. Kok Kin Hok) of the Company any consider necessary, desirable or expedient;
 - (c) the Directors be and are hereby authorised to make such other exclusions or other arrangements as they may deem necessary or expedient and generally to do such things and make such arrangements as they may think fit to give effect to the Open Offer;
 - (d) the Special Deal (as defined in the Circular) be and is hereby approved and the Directors be and are hereby authorised to generally to do such things and make such arrangements in connection therewith as they see fit.
3. **THAT** subject to the passing of the Special Resolution Number 1 and the Ordinary Resolution Number 2 (set out in the notice of the Special General Meeting dated 25 March 2003), the waiver granted pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission for All About Investments Limited and parties acting in concert with it from all obligations to make a mandatory offer for all the issued shares in the capital of the Company under Rule 26 of the Hong Kong Code on Takeovers and Mergers which may otherwise arise as a result of completion of the Underwriting Agreement (as defined in the Circular dated 25 March 2003 a copy of which has been tabled at the meeting and initialled by the Chairman for the purpose of identification) be and is hereby approved.

NOTICE OF SPECIAL GENERAL MEETING

4. “THAT,
- (a) subject to paragraph (b) below, the directors of the Company be hereby generally and unconditionally authorised to exercise during the Relevant Period (as that term is defined below) all the powers of the Company to allot, issue and deal with additional shares of the Company and to make or grant offers, agreements, and options (including warrants, bonds and debentures, notes and any securities which carry rights to subscribe for or are convertible into ordinary shares of the Company) which would or might require the exercise of any of such powers during or after the end of the Relevant Period;
 - (b) the approval in paragraph (a) above shall be in addition to any other authorisation given to the Directors;
 - (c) the aggregate nominal amount of the shares allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, other than pursuant to (i) a Rights Issue (as that term is defined below); or (ii) an issue of ordinary shares of the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the company or any securities which are convertible into ordinary shares of the Company; or (iii) an issue of ordinary shares of the Company by way of scrip dividend pursuant to the Bye-laws of the Company from time to time; or (iv) the exercise of any option granted under any option scheme or similar arrangement for the time being adopted for the grant or issue to employees of the Company and/or its subsidiaries, of options to subscribe for, or rights to acquire, shares of the Company, shall not in total exceed either:
 - (i) 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Open Offer (as defined in the Circular dated 25 March 2003 a copy of which has been tabled at the meeting and initialled by the Chairman for the purpose of identification); or
 - (ii) in the event that the Open Offer lapses or fails to be completed in accordance with its terms, 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of this resolution; and
 - (d) for the purpose of this resolution, “Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting; or

NOTICE OF SPECIAL GENERAL MEETING

- (iii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company, or any applicable laws, to be held; and

“Rights Issue” means an offer of shares for subscription open for a fixed period by the Company to holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of shares (subject to such exclusion or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong).”

5. **“THAT,**

- (a) the directors of the Company be and are hereby generally and unconditionally authorised to exercise during the Relevant Period (as that term is defined below) all the powers of the Company to purchase shares in the capital of the Company, subject to and in accordance with applicable laws;
- (b) the approval in paragraph (a) above shall be in addition to any other authorisation given to the Directors;
- (c) the aggregate nominal amount of the shares which may be purchased pursuant to the approval in paragraph (a) above shall not in total exceed either:
 - (i) 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Open Offer (as defined in the Circular dated 25 March 2003 a copy of which has been tabled at the meeting and initialled by the Chairman for the purpose of identification); or
 - (ii) in the event that the Open Offer does not take place, lapses or fails to be completed in accordance with its terms, 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of this resolution; and
- (d) for the purpose of this resolution, “Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders in general meeting; or
 - (iii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company, or any applicable laws, to be held.”

NOTICE OF SPECIAL GENERAL MEETING

6. “**THAT**, conditional upon the ordinary resolutions No. 4 and 5 contained in the notice of the Special General Meeting dated 25 March 2003 being approved, the aggregate nominal amount of the shares in the capital of the Company which are repurchased by the Company pursuant to and in accordance with ordinary resolution No. 5 set out in that Notice shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted or agreed unconditionally or unconditionally to be allotted by the directors of the Company pursuant to and in accordance with ordinary resolution No. 4 set out in that Notice.”

By order of the Board
Cheung Kwok Yu
Company Secretary

Dated 25 March 2003

Notes:

1. A member entitled to attend and vote at the Special General Meeting is entitled to appoint another person as his proxy to attend and vote in his stead. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the Special General Meeting. A proxy need not be a member of the Company but must be present in person to represent the member.
2. In order to be valid, the form of proxy must be deposited at the Company’s branch share registrars, Abacus Registrars Limited Hong Kong together with the power or attorney or other authority (if any) under which it is signed, or a certified copy of such power of attorney or authority, not less than 48 hours before the time appointed for holding the Special General Meeting.
3. Where there are joint holders of any share, any one of such persons may vote at the Special General Meeting either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the Special General Meeting personally or by proxy, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of such joint holding.
4. A form of proxy for use in connection with the Special General Meeting is enclosed.
5. Ordinary resolutions numbered 2 and 3 will be voted by way of a poll.