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## **EZCOM HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

### **ADJOURNMENT OF SGM COMPLETION OF SYSTEM REVIEW AND RESUMPTION OF TRADING**

- The Company's SGM on 9th July, 2003 was adjourned until further notice by the Company. The said adjournment was made in accordance with the Companies Act and its bye-laws. The reason for the adjournment was that the Company had discovered that the unaudited profit after tax figure of Ezcom Tech for the seven months ended 31st October, 2002 of "HK\$67.7 million" as stated at line 8 of paragraph 2 of the June Announcement and at line 15 of paragraph 2 on page 9 of the Circular was incorrectly stated. The correct figure should be "HK\$33.3 million".
- The system review mentioned in the Company's announcement dated 18th August, 2003 has been completed. A summary of the scope, key findings and recommendations noted in the Review is set out below.
- As the cause of the Misstated Figure has been identified as a human input error and additional preventive measures have been and will be implemented, the Directors (including the independent non-executive Directors) and the audit committee of the Company are of the view that this is an isolated incident, the risk of a similar error recurring will be reduced and that the Company's financial reporting system remains reliable, hence are of the view that the Company will be able to continue to discharge its obligations under the Listing Rules.
- The Board also refers to a cancellation of debts on 23rd April, 2003 whereby a debt payable by Lamex China Limited to the Company was effectively "set off" against the debt owed by the Company to Mr. Kok Kin Hok and Mr. Li Tung Wai under their Convertible Notes. The Directors are of the view that the set off arrangement had a zero value to the Company and consider that it is exempted pursuant to rule 14.24(5) under Chapter 14 of the Listing Rules. The Stock Exchange is of the view that the "set off" is a connected transaction falling under Chapter 14 of the Listing Rules and that the size of the connected transaction should be measured by reference to the amount being set off together with the interest forgone on the debt payable by Lamex China Limited. Further submissions will be made by the Company in this regard. The Stock Exchange will make further enquiries to determine the appropriate action to take.
- The Company will not proceed with the connected transaction in relation to the acquisition of further equity interests in Future Circle Holdings Limited for the time being. A further announcement will be made if and when the Company wishes to proceed with that transaction.

- The Company has applied for a resumption of trading in its shares from 9:30 a.m. on Monday, 15th September, 2003.

Reference is made to the Company's announcement dated 18th August, 2003, the Company's announcement dated 20th June, 2003 (the "June Announcement") and circular (the "Circular") dated 23rd June, 2003. Terms defined in the Circular have the same meanings when used in this announcement, unless otherwise defined herein.

### **Adjournment of SGM**

The Company's SGM on 9th July, 2003 was adjourned until further notice by the Company. The said adjournment was made in accordance with the Bermuda Companies Act 1981 (the "Companies Act") and bye-law 64 of the Company's bye-laws. The reason for the adjournment was that the Company discovered that the unaudited profit after tax figure of Ezcom Tech for the seven months ended 31st October, 2002 of "HK\$67.7 million" (the "Misstated Figure") as stated at line 8 of paragraph 2 of the June Announcement and at line 15 of paragraph 2 on page 9 of the Circular was incorrectly stated. The correct figure should be "HK\$33.3 million". The Misstated Figure in the Circular and June Announcement was explained at the SGM by the Company's secretary and the meeting was adjourned by the chairman of the SGM, Mr. Lam Bing Sum, with the consent of the Shareholders or proxies to Shareholders present at the SGM. Shareholders or proxies to Shareholders were asked by the Company secretary whether they had any questions or objections to the adjournment and no questions or objections were raised. The Company has confirmed with its Bermuda legal advisers that the adjournment was carried out in accordance with the Companies Act and its bye-laws. Notice of reconvening the SGM will be sent to Shareholders in due course in accordance with the Companies Act and the Company's bye-laws.

The cause of the Misstated Figure may be explained by an account of events leading to its production. In summary, the former accounting manager of the Company was responsible for the preparation of the April 2002 profit and loss account report of Ezcom Tech for the purpose of inclusion into the Circular. In order for a report of an accounting period to be generated, the beginning and ending dates of the accounting period must be input into the system. The Company and the executive and independent non-executive Directors are of the view that an incorrect accounting period was inadvertently input for the generation of the report, which has resulted in the production of the Misstated Figure. Discussions were also held between the former accounting manager and the firm of accountants for the review (as explained in more details below) independently in July 2003 during the first stage of the review. When preparing the information to be disclosed in the Circular, the Directors and financial advisers have checked information published in the Circular and relied on a profit and loss account report for the month April 2002 prepared by this former accounting manager containing the Misstated Figure, who has not made similar mistake before and after discussing with the management, the Directors relied on the information provided by the management including the former accounting manager and former financial controller. As no similar error has occurred before, the Directors had no reason to cast doubt over the quality of information provided by the management of the Company. Verification was carried out by the Directors through meetings with the management of the Company to discuss the information to be included in the June Announcement and the Circular but no error was found at that time. The financial advisers have advised the Company (which has acknowledged the receipt of such advice) to take all reasonable steps to ensure that the information published in the Circular and announcements relating to the acquisition of further equity interests in Future Circle Holdings Limited are true, accurate, complete and not misleading, and that no material information or facts have been omitted or withheld.

Meetings have been held between the Directors, and the management of the Company including the Company secretary and a director of the Company's subsidiary to discuss information provided by the management of the Company. When presenting information to financial advisers and the independent financial adviser, meetings were also held with the Company's management including the Company secretary, but not the Directors, to discuss the information to be disclosed in the Circular in order to ensure the quality of these information. Further details of the events leading to the production of the Misstated Figure and type of work undertaken by the Directors, financial advisers and independent financial adviser in relation to the preparation of the Circular will be contained in a circular to be issued by the Company.

## **System Review**

As stated in the Company's announcement dated 18th August, 2003, the Company on 14th August, 2003 commissioned an independent firm of accountants to conduct a review ("Review") of the reasons for the Misstated Figure and the internal control environment surrounding the relevant financial reporting processes of the Company. Control weaknesses were identified and recommendations were made to improve them. The Review covered the following areas:

1. Review of the Company's business process and application controls over certain aspects of its accounting and financial reporting function, including the adequacy of data input/validation controls, audit trails, manual and automated control procedures, and the related underlying general IT controls environment; and
2. Review of the financial reporting procedures that were used to generate unaudited profit figures included in circulars issued by the Company in years 2002 and 2003.

## **Findings**

In summary, the key findings of the Review are:-

- (a) Appropriate checking and reconciliation procedures of system generated output were not carried out by relevant Company management including the accounting manager and financial controller during the preparation of the Profit and Loss account report for the month of April 2002, and reasonableness check and analytical review have not been effectively performed by relevant Company management including the accounting manager and financial controller during the preparation of the Circular (see *note* below);
- (b) Procedures for the preparation and publication of the Circular and the roles and responsibilities for the relevant Company personnel involved in the procedures were not formally defined, for example, no formal supporting documentation (as evidence of the checking and reconciliation procedures performed by the former accounting manager and financial controller to ensure the accuracy of the financial information included in the draft Circular) was requested by or provided to the Company secretary and the executive Directors for verification (see *note* below);
- (c) The control function in the Company's accounting system was not fully utilised to help minimise the risk of manual errors during the Profit and Loss account report generation process (i.e., the "Zero Display" function which allows figures with a zero value to be displayed, was disabled purposely);

- (d) It does not appear that the error, relating to the overstatement of unaudited profit by HK\$34.4 million for the seven months period ended 31st October, 2002 found in the Circular also occurred during the preparation of the circulars issued by the Company in years 2002 and 2003 which contain audited figures which were directly extracted from the Company's previous audited financial statements or unaudited figures from the Company's published interim reports;
- (e) The application and general IT control environments supporting the financial reporting function were noted to require further improvements to be made (see *note* below); and
- (f) Having conducted a simulation of the past events (or steps) on the basis of the Company's belief of what occurred during the preparation of the April 2002 profit and loss account report of Ezcom Tech, it was found that the resulting profit overstatement was consistent with the situation described by the Company's management.

*Note:* considered by the independent firm of accountants as high risk areas

## **Recommendations**

In light of the above findings, the following major recommendations were made to the Company:

1. Develop and perform independent checking and reconciliation procedures over the system generated output, such as matching total monthly balances with the whole year balance, matching sub-ledger balance with total ledger balance, and perform reasonableness checks and analytical reviews of key financial information by the Company's management (including executive Directors) during the preparation of future circulars;
2. Clearly define and communicate procedures to the relevant Company personnel involved, including the accounting manager, financial controller and executive Directors, so that all parties concerned understand their roles and responsibilities and formally define other checking procedures that may further enhance the overall accuracy and completeness of the financial information being disclosed;
3. Adopt the relevant system validation controls such as enabling the "Zero Display" function and restricting users to enter a printing period that is not covered by the selected database, so that the manual errors could be more easily detected during the preparation of future Profit and Loss account reports; and
4. Improve the application and general IT controls environments supporting the financial reporting function, in particular, application functions of the system should be granted on a need-to-have basis, audit trail should be kept in the system on amendment to monthly closing stock value, formal user account maintenance procedure should be established and password controls should be enhanced.

## **Company's actions**

Having reviewed these findings and recommendations, the Company is now planning to adopt all these recommendations. In particular, it has already performed monthly reconciliation procedures as suggested in recommendation 1 (reconciling monthly balances with whole year balance) with effect from the month end reporting in August, 2003. The directors will be notified immediately if any significant error is found. In respect of recommendation 2, it has set a goal in the next two weeks that it will clearly define and adopt certain procedures as recommended for preparation and publication of future circulars and

other public documents, communicate and explain their responsibilities to the relevant Company personnel involved. In respect of recommendations 3 and 4, it also proposes in the next six weeks to activate the recommended system validation control option as default in its system and adopt the other recommended application and general IT control measures. The Company's management (including executive Directors) anticipate that all these actions will be completed around mid October of 2003. The Company will submit to the Stock Exchange a status report upon completion of these actions.

In addition, the Company has put in place a special unit consisting of 4 personnel (which are Mr. Lam Bing Sum who is an executive Director, the Company secretary, accounting manager and Mr. Li Tung Wai who is a director of the Company's subsidiary, Ezcom Tech) responsible for quality control of financial information and all other information to be published by the Company in future public documents. This special unit will also review future transactions of the Company which may be classified as notifiable transactions under Chapter 14 of the Listing Rules. As the Company secretary and the director of the Company's subsidiary, Ezcom Tech, were involved in the preparation of the Circular, in order to strengthen quality control, an executive Director and a new accounting manager are added to this special unit. Meetings will also be held between this special unit and the Directors to discuss reasonableness checks and review procedures in a view to ensure quality of information to be disclosed in a public document. This special unit will also have regular meetings within itself to discuss and review the procedures it adopts to review the information provided to them by various departments of the Company and also discuss possible ways to improve. The circular to be issued by the Company will contain details of the findings and recommendations of the Review and the Company's analysis, conclusion and possible actions in that relation.

As the cause of the Misstated Figure has been identified as a human input error and additional preventive measures have been and will be implemented, the Directors (including the independent non-executive Directors) and the audit committee of the Company are of the view that this is an isolated incident, the risk of a similar error recurring will be reduced and that the Company's financial reporting system remains reliable, hence are of the view that the Company will be able to continue to discharge its obligations under the Listing Rules.

### **Set Off Arrangement**

The Board also refers to a cancellation of debts on 23rd April, 2003 whereby a debt payable by Lamex China Limited to the Company was effectively "set off" against the debt owed by the Company to Mr. Kok Kin Hok and Mr. Li Tung Wai under their Convertible Notes. At the time of the "set off" transaction, the Board was of the view that the transaction was not a connected transaction. The Board has now reconsidered the facts and having sought for separate independent advice, has come to a conclusion that it was in fact a connected transaction falling under Chapter 14 of the Listing Rules. However, since the set off arrangement had a zero value to the Company, the Directors consider that it is exempted pursuant to rule 14.24(5) under Chapter 14 of the Listing Rules. The Stock Exchange is of the view that the "set off" is a connected transaction falling under Chapter 14 of the Listing Rules and that the size of the connected transaction should be measured by reference to the amount being set off together with the interest forgone on the debt payable by Lamex China Limited. Further submissions will be made by the Company in this regard. The Stock Exchange will make further enquiries to determine the appropriate action to take.

## **Future Circle Transaction**

In view of market conditions since the Company first entered into the connected transaction in relation to the acquisition of further equity interests in Future Circle Holdings Limited, the Company has decided not to proceed with that transaction for the time being and is reviewing its options. A further announcement will be made if and when the Company wishes to proceed with that transaction and, if it does so, the Company will comply in full with the Listing Rules.

The Company has applied for a resumption of trading in its shares from 9:30 a.m. on Monday, 15th September, 2003.

By order of the board of  
**Ezcom Holdings Limited**  
**Kok Kin Hok**  
*Chairman*

Hong Kong, 11th September, 2003

“Please also refer to the published version of this announcement in China Daily”.