

R E P O R T O F T H E D I R E C T O R S

The directors herein present their report and the audited financial statements of TechCap Holdings Limited (the “Company”) for the period from 16 November 2000 (date of incorporation) to 31 March 2001. The audited financial statements for the period ended 31 March 2001 include supplementary pro forma combined financial statements of the Company and its subsidiaries (collectively referred to as the “Group”), which was legally formed subsequent to 31 March 2001.

GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in Bermuda on 16 November 2000 under section 14 of the Companies Act (1981). Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) by way of introduction, the Company became the holding company of the companies (principally Honko International Holdings Limited (“Honko”) and its subsidiaries) now comprising the Group on 14 June 2001. Further details of the Group reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 2 and 13 to the financial statements.

Subsequent to the balance sheet date, on 18 June 2001, the Company was listed on the Stock Exchange by way of introduction.

In order to apprise the Company’s shareholders of the pro forma combined financial results and position of the Group, had the Group have been in existence throughout the years ended 31 March 2000 and 2001, supplementary financial information comprising a supplementary pro forma combined profit and loss account, balance sheet and cash flow statement, is included in this annual report. The basis of preparing the aforesaid supplementary financial information, which is further detailed in note 1 to the financial statements, has also been applied for presenting the information referring to the Group in this Report of the Directors.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 13 to the financial statements. There were no changes in the nature of the Group’s principal activities during the year.

SEGMENTED INFORMATION

An analysis of the Group's pro forma combined turnover and sources of its operating loss by principal activity and geographical area of operations for the year ended 31 March 2001 is as follows:

Turnover	2001		2000	
	Turnover <i>HK\$'000</i>	Absorption <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Absorption <i>HK\$'000</i>
By activity:				
Manufacturing	208,478	(25,385)	179,558	(33,404)
Sourcing and distribution	10,197	(1,242)	2,172	(404)
Others	—	(832)	180	(16,048)
	<u>218,675</u>	<u>(27,459)</u>	<u>181,910</u>	<u>(49,856)</u>
By geographical area:				
Hong Kong	139,578	(15,870)	140,778	(42,204)
Other Asian countries	56,426	(8,267)	33,009	(6,141)
U.S.A.	11,906	(1,743)	2,273	(423)
Europe and others	10,765	(1,579)	5,850	(1,088)
	<u>218,675</u>	<u>(27,459)</u>	<u>181,910</u>	<u>(49,856)</u>

RESULTS

The Group's pro forma combined loss for the year ended 31 March 2001 and the pro forma combined state of affairs of the Group as at that date, together with the loss of the Company for the period from 16 November 2000 (date of incorporation) to 31 March 2001 and its state of affairs as at 31 March 2001 are set out in the financial statements on pages 24 to 52.

REPORT OF THE DIRECTORS

SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the pro forma combined results of the Group for the each of the five years ended 31 March 2001 and the pro forma combined net assets/liabilities of the Group as at 31 March 1997, 1998, 1999, 2000 and 2001.

	Year ended 31 March				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Results					
Turnover	<u>218,675</u>	<u>181,910</u>	<u>149,416</u>	<u>523,918</u>	<u>890,135</u>
Profit/(loss) before tax	<u>(27,459)</u>	<u>(49,856)</u>	<u>(66,401)</u>	<u>(388,211)</u>	<u>50,419</u>
Tax	<u>—</u>	<u>—</u>	<u>2</u>	<u>6,144</u>	<u>(5,410)</u>
Profit/(loss) before minority interests	<u>(27,459)</u>	<u>(49,856)</u>	<u>(66,399)</u>	<u>(382,067)</u>	<u>45,009</u>
Minority interests	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>687</u>
Net profit/(loss) from ordinary activities attributable to shareholders	<u>(27,459)</u>	<u>(49,856)</u>	<u>(66,399)</u>	<u>(382,067)</u>	<u>45,696</u>
	As at 31 March				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Assets and liabilities					
Fixed assets	6,436	16,241	59,147	84,543	106,310
Investment properties	1,083	1,500	2,830	3,063	3,700
Interest in an associate	—	—	—	—	—
Current assets	<u>74,332</u>	<u>64,735</u>	<u>52,738</u>	<u>115,761</u>	<u>429,740</u>
TOTAL ASSETS	<u>81,851</u>	<u>82,476</u>	<u>114,715</u>	<u>203,367</u>	<u>539,750</u>
Current liabilities	337,057	310,215	280,203	285,963	270,005
Bank loans, secured	—	—	—	—	296
Other borrowings	—	—	—	—	2,047
Finance lease payables	—	8	19	—	19,353
Due to a director	—	—	—	—	2,300
Loans from directors	—	—	12,384	28,896	41,326
Deferred tax	—	—	—	—	6,038
TOTAL LIABILITIES	<u>337,057</u>	<u>310,223</u>	<u>292,606</u>	<u>314,859</u>	<u>341,365</u>
	<u>(255,206)</u>	<u>(227,747)</u>	<u>(177,891)</u>	<u>(111,492)</u>	<u>198,385</u>
MINORITY INTERESTS	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
NET ASSETS/(LIABILITIES)	<u>(255,206)</u>	<u>(227,747)</u>	<u>(177,891)</u>	<u>(111,492)</u>	<u>198,385</u>

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and the investment properties of the Group during the year are set out in notes 11 and 12 to the financial statements, respectively.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 13 to the financial statements.

BANK LOANS, OTHER BORROWINGS AND FINANCE LEASE PAYABLES

Particulars of the bank loans, other borrowings and finance lease payables of the Group at the balance sheet date are set out in notes 17 and 18 to the financial statements, respectively.

LOANS FROM DIRECTORS

Particulars of loans from the directors of Honko as at the balance sheet date are set out in note 20 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options, together with the reasons therefor, are set out in note 21 to the financial statements.

RESERVES

Details of movements in the reserves of the Company during the period and of the Group during the year are set out in note 22 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 March 2001, the Company had no reserves available for cash distribution and/or distribution in specie, as calculated in accordance with the Companies Act 1981.

PENSION SCHEME

Details of the pension scheme of the Group and the employer's pension costs charged to the profit and loss account for the year are set out in notes 3 and 5 to the financial statements.

INVESTMENT PROPERTIES

Details of the investment properties of the Group are as follows:

Location	Group interest	Tenure	Use
Units 20-23 on 18/F & Roof, Wah Luen Industrial Centre, No. 15-21, Wong Chuk Yeung Street, Shatin, New Territories Hong Kong	100%	The property is held for a term of 99 years less the last 3 days commencing from 1 July 1898 and is statutorily extended to 30 June 2047.	Industrial

DIRECTORS

The directors of Honko during the year ended 31 March 2001 and up to date of this report were as follows:

Executive directors

Mr. Lam Yat Keung	
Mr. Tam King Ho	(resigned on 14 June 2001)
Mr. Ho Chi Fai	(resigned on 14 June 2001)
Ms Lam Ching Wah	(resigned on 14 June 2001)
Mrs. Lam Pik Wah	
Mr. Mok Shau Chuen	(resigned on 14 June 2001)
Dr. Li Zhong Yuan	(appointed on 14 June 2001)
Mr. Wong Chong Kwong, Derek	(appointed on 14 June 2001)
Mr. Chan Chung Yin, Victor	(appointed on 14 June 2001)

Independent non-executive directors

Mr. Chan Hing Kwong, Peter	(resigned on 14 June 2001)
Mr. Hsu Shiu Foo, William	(resigned on 14 June 2001)
Mr. Lo Wai Kwok	(resigned on 14 June 2001)
Mr. Tsumura Tetsuo	(resigned on 14 June 2001)

In accordance with Honko's bye-law 99, the directors will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS *(continued)*

The directors of the Company during the period from 16 November 2000 (date of incorporation) to 31 March 2001, and up to date of this report were as follows:

Executive directors

Dr. Li Zhong Yuan	(appointed on 27 November 2000)
Mr. Wong Chong Kwong, Derek	(appointed on 27 November 2000)
Mr. Chan Chung Yin, Victor	(appointed on 27 November 2000)
Mr. Lam Yat Keung	(appointed on 14 June 2001)
Mr. Mok Shau Chuen	(appointed on 14 June 2001)

Independent non-executive directors

Mr. Yuen Wai	(appointed on 14 June 2001)
Mr. Li Xiao Ru	(appointed on 14 June 2001)

In accordance with the Company's bye-law 87, one-third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company for an initial term of five years commencing from 14 June 2001 with the first two years under a fixed term and the remaining three years being terminable by not less than a six-month notice in writing served by either party.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

On 9 April 2001, Honko put forward a restructuring proposal, pursuant to which the Company issued shares for cash and restructured all the indebtedness of the Honko Group as stipulated in a subscription agreement ("the Subscription Agreement") and two compromise agreements (the "Compromise Agreements") that were entered into on 18 January 2001. The Subscription Agreement was entered into by Honko, the Company, the Investor, Kingsway and Mr. Lam Yat Keung, a director of Honko. The Compromise Agreements were entered into by Honko, the Company, the Investor, Kingsway and the Honko Group's borrowing banks, finance lease creditors and certain other creditors. Details of them are set out in note 2 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS *(continued)*

Save as disclosed above, no director of Honko or the Company had a significant beneficial interest, either directly or indirectly, in any contract of significance to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARE CAPITAL AND OPTIONS

As at 31 March 2001, the interests of the directors of Honko in the share capital and options of Honko and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") as recorded in the register required to be kept pursuant to Section 29 of the SDI Ordinance or as otherwise notified to Honko and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Honko

Name of director	Type of interest	Number of shares held
Mr. Lam Yat Keung	Corporate <i>(Note)</i>	170,850,000
	Personal	3,200,000

Note: The above shares are registered in the name of HKSCC Nominees Limited and are held as to 140,700,000 shares by Joytek Holdings Limited, 14,070,000 shares by Maxtop Holdings Limited and 16,080,000 shares by Universal Legend Limited. All of these companies are beneficially owned by Mr. Lam Yat Keung.

Apart from the above, as at 31 March 2000, each of Mr. Lam Yat Keung, Ms. Lam Ching Wah, Ms. Lam Pik Wah, and Mr. Mok Shau Chuen had 5,000,000 options and Mr. Ho Chi Fai had 1,500,000 options to subscribe for ordinary shares of Honko at a price of HK\$1.04 per share. All of these share options lapsed during the year.

Save as disclosed above, none of the directors of Honko, or their associates had any personal, family, corporate or other interest in the share capital or options of Honko or any of its associated corporations, as defined in the SDI Ordinance as at 31 March 2001.

DIRECTORS' INTERESTS IN SHARE CAPITAL AND OPTIONS *(continued)*

Subsequent to the balance sheet date, on 18 June 2001, the Company was listed on the Stock Exchange. At the date of this report, the interests of the directors of the Company in the listed share capital of the Company or its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") as recorded in the register that is required to be kept pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, are as follows:

Name of director	Type of interest	Number of shares held
Dr. Li Zhong Yuan	Corporate <i>(Note (a))</i>	3,721,400,000
Mr. Wong Chong Kwong, Derek	Corporate <i>(Note (a))</i>	3,721,400,000
Mr. Chan Chung Yin, Victor	Corporate <i>(Note (a))</i>	3,721,400,000
Mr. Lam Yat Keung	Personal	400,999,954
	Corporate <i>(Note (b))</i>	170,850,000
	Family <i>(Note (c))</i>	412,500,000

Notes:

- (a) These shares are held by Pacific Annex Capital Limited which is beneficially owned by Dr. Li Zhong Yuan, Mr. Wong Chong Kwong, Derek and Mr. Chan Chung Yin, Victor.
- (b) These shares are held by Joytek Holdings Limited, Maxtop Holdings Limited and Universal Legend Limited. All of these companies are beneficially owned by Mr. Lam Yat Keung.
- (c) These shares are held by Ms. Lam Pik Wah, the wife of Mr. Lam Yat Keung, personally and a company controlled by her.

Save as disclosed above, as at the date of this report, none of the directors of the Company, or their associates had any personal, family, corporate or other interest in the share capital or options of the Company or any of its associated corporations, as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed under the section headed "Directors' interests in the share capital and options" above, no person had registered as having an interest of 10% or more of the share capital of Honko during the year that was required to be recorded under Section 16(1) of the SDI Ordinance.

As at 31 March 2001, the 170,850,000 ordinary shares of Honko held by Mr. Lam Yat Keung under his corporate interest ("Lam's Shares"), as disclosed above, were pledged to Sunford Finance (H. K.) Limited ("Sunford") as security for certain financing arrangements, further details of which are set out in note 20 to the financial statements. After 14th June 2001, the Lam's Shares have become 170,850,000 ordinary shares in the Company and are still pledged to Sunford as security.

SUBSTANTIAL SHAREHOLDERS *(continued)*

At the date of this report, the following individuals had an interest of 10% or more of the share capital of the Company as recorded in the register of interest in shares required to be kept by the Company pursuant Section 16(1) of the SDI Ordinance.

Name	Number of shares held	Percentage of issued shares
Pacific Annex Capital Limited	3,721,400,000	43.82%
Mr. Lam Yat Keung and his associates	984,349,954	11.59%

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out under the section headed the “Directors’ interests in share capital and options” above, had registered as having an interest of 10% or more of the share capital of the Company that is required to be recorded under Section 16(1) of the SDI Ordinance.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES

Honko adopted a share option scheme under which the directors of Honko were permitted to, at their discretion, invite any employee or executive director of Honko to take up options, exercisable for as long as the share options scheme is raised and in force commencing on the date on which the option was accepted by the grantee, to subscribe for shares in Honko of a par value of HK\$0.10 each. The maximum number of shares in respect of which options were permitted to be granted under the Scheme could not exceed 10% of the issued share capital of Honko.

As detailed under the section headed “Directors’ interests in share capital and options” above, all of the options to subscribe for shares of Honko lapsed during the year, and this share option scheme was terminated at the time of the Group reorganisation.

Save as disclosed above, at no time during the year was Honko or any of its subsidiaries a party to any arrangement to enable the directors of Honko to acquire benefits by means of the acquisition of shares in Honko or any other body corporate.

The Company adopted a share option scheme on 16 May 2001 under which the directors of the Company may, at their discretion, grant options to any employee or executive director of the Company and its subsidiaries at any time during the ten years from the date on which the share option scheme was approved. Particulars of the share option scheme are set out in note 21 to the financial statements.

Save as disclosed above, at no time during the period from 16 November 2000 (date of incorporation) to 31 March 2001 was the Company a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither Honko, nor any of its subsidiaries purchased, sold or redeemed any of the Honko's listed securities during the year or up to the date of the listing of the Company's shares. From the listing of the Company's shares on 18 June 2001 up to the date of this report, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events of the Group are set out in note 27 to the financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The largest supplier and the five largest suppliers of the Group accounted for approximately 29% and 66%, respectively, of the Group's total purchases during the year.

The largest customer and the five largest customers of the Group accounted for approximately 11% and 52%, respectively, of the Group's total sales for the year.

None of the directors of Honko or of the Company or any of their associates or any shareholders (which to the knowledge of the directors of Honko or of the Company, own more than 5% of Honko's or the Company's issued share capital) has any interest in the Group's five largest suppliers or customers.

CODE OF BEST PRACTICE

Pursuant to Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, Honko had, in place, an audit committee, which comprised two independent non-executive directors of Honko, throughout the year ended 31 March 2001.

The Restructuring Proposal was completed on 14 June 2001. As at the report date, the Company had not yet set up an audit committee to perform its duties, and in this regard the Code of Best Practice as set out in Appendix of the Listing Rules of the Stock Exchange (the "Code of Best Practice") has not been complied with. However, the Company has already taken steps to form an audit committee comprising two independent non-executive directors of the Company so as to ensure that the Code or Best Practice can be duly complied with entirely in the forthcoming financial year ending on 31 March 2002.

CODE OF BEST PRACTICE *(continued)*

In the opinion of the directors of the Company, save as the above, the Company has complied with the rest of Code of Best Practice. In particular, one-third of the directors of the Company including the independent non-executive directors (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's bye-laws.

AUDITORS

Ernst & Young retire and a resolution for the appointment of auditors will be proposed in the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD

Dr. Li Zhong Yuan

Chairman

Hong Kong

24 July 2001