



TEHCAP HOLDINGS LIMITED
科達集團(控股)有限公司

I n t e r i m

R e p o r t 2 0 0 1

The Directors of TechCap Holdings Limited (the "Company") are pleased to present the unaudited consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2001. These interim financial statements have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2001

		For the six months ended 30 September	
		2001	2000
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Turnover	4	97,590	117,130
Cost of sales		(88,485)	(94,644)
Gross profit		9,105	22,486
Other revenue		426	–
Administration and other operating expenses		(26,145)	(27,410)
Loss from operating activities	5	(16,614)	(4,924)
Finance costs		(5,308)	(10,260)
Liabilities waived on group reorganisation		161,441	–
Profit (loss) before tax		139,519	(15,184)
Tax	6	1,007	–
Net profit (loss) from ordinary activities attributable to shareholders		140,526	(15,184)
		HK cents	HK cents
Earnings (loss) per share	7		
– Basic		2.7	(4.2)
– Diluted		2.4	N/A

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2001

	<i>Notes</i>	30 September 2001 (Unaudited) HK\$'000	31 March 2001 (Audited) HK\$'000
Non-Current Assets			
Property, plant and equipment	9	9,907	6,436
Investment properties		–	1,083
		<u>9,907</u>	<u>7,519</u>
Current Assets			
Prepayments, deposits and other receivables		60,411	1,350
Accounts receivable	10	29,642	31,081
Loans receivable		21,026	–
Inventories		36,327	39,185
Marketable securities		3,429	–
Cash and bank balances		51,508	2,716
		<u>202,343</u>	<u>74,332</u>
Current Liabilities			
Accounts payable	11	36,281	37,279
Other payables and accrued liabilities		26,539	56,889
Tax		–	1,007
Finance lease payable		13,331	36,462
Interest-bearing bank loans and other borrowings		20	130,498
Due to related company		–	6,950
Due to shareholders		610	1,109
Due to directors		–	15,502
Loans from directors		–	51,361
		<u>76,781</u>	<u>337,057</u>
Net Current Assets (Liabilities)		<u>125,562</u>	<u>(262,725)</u>
Total Assets Less Current Liabilities		135,469	(255,206)
Non-Current Liabilities			
Finance lease payable		(1,186)	–
Convertible notes	12	(10,000)	–
Bonds		(93,600)	–
		<u>30,683</u>	<u>(255,206)</u>
Capital and Reserves			
Share capital	13	43,966	1,790
Reserves	14	(13,283)	(256,996)
		<u>30,683</u>	<u>(255,206)</u>

**CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2001**

	For the six months ended 30 September	
	2001 (unaudited) HK\$'000	2000 (unaudited) HK\$'000
Loans from a shareholder waived on group reorganisation	<u>33,728</u>	—
Net gains not recognised in the income statement	33,728	—
Net profit (loss) for the period	<u>140,526</u>	<u>(15,184)</u>
Total recognised gains (losses)	<u><u>174,254</u></u>	<u><u>(15,184)</u></u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2001

	For the six months ended 30 September	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Net cash (outflow) inflow from operating activities	(72,044)	1,408
Net cash outflow from returns on investments and servicing of finance	(4,930)	(5,242)
Net cash outflow from investing activities	<u>(29,540)</u>	<u>(1,081)</u>
Net cash outflow before financing	(106,514)	(4,915)
Net cash inflow (outflow) from financing	<u>192,473</u>	<u>(1,356)</u>
Increase (decrease) in cash and cash equivalents	85,959	(6,271)
Cash and cash equivalents at the beginning of period	<u>(34,471)</u>	<u>(23,600)</u>
Cash and cash equivalents at the end of period	<u><u>51,488</u></u>	<u><u>(29,871)</u></u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	51,508	1,803
Bank overdrafts	<u>(20)</u>	<u>(31,674)</u>
	<u><u>51,488</u></u>	<u><u>(29,871)</u></u>

NOTES TO CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2001

1. BASIS OF PRESENTATION

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). The Group reorganisation, as further detailed in note 2 to the condensed consolidated financial statements, involved companies which are under common control. According to the Hong Kong Statement of Standard Accounting Practice No. 2.127 "Accounting for Group Reconstructions", the Company together with the subsidiaries should be regarded as a continuing group in the preparation of the Group's financial statements. Accordingly, the condensed financial statements were consolidated on merger accounting basis.

2. GROUP REORGANISATION

On 9 April 2001, Honko International Holdings Limited ("Honko"), the former holding company of the Group which was formerly listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") put forward a restructuring proposal (the "Restructuring Proposal"), pursuant to which the Group issued further shares for cash and restructured all its indebtedness as stipulated in a subscription agreement (the "Subscription Agreement") and two compromise agreements (the "Compromise Agreements") that were entered into 18 January 2001. The Subscription Agreement were entered into by Honko, the Company, an independent investor (the "Investor"), Kingsway SW Securities Limited ("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.

On 14 June 2001, upon the approval of the independent shareholders of Honko and the fulfillment of the other conditions as set out in the Subscription Agreement and the Compromise Agreements, the Group underwent a Group reorganisation and a debt restructuring, which comprised the following principal parts:

- a. A scheme of arrangement under section 99 of the Companies Act 1981 of Bermuda (the "Scheme") under which all of the shares of Honko ("Honko Shares") as at 14 June 2001 (except for 1,000,000 Honko Shares subscribed at par by the Company as part of the Scheme on 16 May 2001) were cancelled and extinguished by way of a reduction of share capital, and swapped with the Company shares ("TechCap Shares") on a one-for one basis, resulting in the issue of 358 million TechCap Shares.
- b. Simultaneously, a provisional allotment of 1,432 million TechCap Shares, whereby the shareholders of Honko were entitled to be allotted four TechCap Shares for every existing Honko shares held as at 14 June at an allotment price of HK\$0.02 per share, resulting in cash proceeds of HK\$28.6 million.

- c. The subscription of 2,800 million TechCap Shares by the Investor and of another 1,000 million TechCap Shares by subscribers procured by Kingsway at a subscription price of HK\$0.01 each resulting in cash proceeds of HK\$38 million.
- d. The repayment of HK\$28.7 million of the Honko Group's bank borrowings, in the form of HK\$26 million cash and of 181 million TechCap Shares at a price of HK\$0.015 per share (HK\$2.7 million in aggregate), and the waiver of the remaining bank borrowings of HK\$137 million.
- e. The repayment of HK\$3.57 million of the Honko Group's finance lease creditors, in the form of HK\$3.4 million cash and of 34 million TechCap Shares at a price of HK\$0.005 per share (HK\$170,000 in aggregate), the refinancing of HK\$13.6 million and the waiver of HK\$15.6 million of the remaining finance lease creditors.
- f. The repayment of HK\$14.42 million of loans from directors, in the form of 700 million TechCap Shares at a price of HK\$0.02 per share (HK\$14 million in aggregate) and of 84 million TechCap Shares at a price of HK\$0.005 per share (HK\$420,000 in aggregate), and the waiver of the remaining directors' loans of HK\$41.6 million.
- g. The repayment of HK\$10 million of the Honko Group's management creditors. Pursuant to the Compromise Agreements, the management creditors have undertaken to subscribe for 417 million TechCap Shares at a price of HK\$0.024 per share (HK\$10 million in aggregate).
- h. The repayment of HK\$6.95 million of an amount due to a related company in the form of 287.5 million TechCap Shares at a price of HK\$0.024 per share (HK\$6.9 million in aggregate), and the waiver of the remaining HK\$50,000 due to the related company.
- i. The subscription of Convertible Notes by subscribers procured by Kingsway of HK\$25 million.

Upon the completion of the group reorganisation, the Company became the holding company of Honko and its subsidiaries. Honko was then delisted from the Stock Exchange on 15 June 2001, and the Company was listed on the Stock Exchange on 18 June 2001 in its place by way of introduction.

3. ACCOUNTING POLICIES

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 (SSAP 25) "Interim Reporting" issued by the Hong Kong Society of Accountants. The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31 March 2001.

4. SEGMENT INFORMATION

By activity:

	2001		2000	
	Revenue HK\$'000	Loss from operating activities HK\$'000	Revenue HK\$'000	Loss from operating activities HK\$'000
Manufacturing	94,339	(6,171)	113,599	(4,767)
Sourcing and distribution	3,251	(213)	3,518	(148)
Others	—	—	13	(9)
	<u>97,590</u>	<u>(6,384)</u>	<u>117,130</u>	<u>(4,924)</u>
Unallocated corporate expenses		<u>(10,230)</u>		<u>—</u>
		<u>(16,614)</u>		<u>(4,924)</u>

By geographical market:

	2001		2000	
	Revenue HK\$'000	Loss from operating activities HK\$'000	Revenue HK\$'000	Loss from operating activities HK\$'000
Hong Kong	81,641	(5,341)	89,248	(3,752)
Other Asian countries	11,665	(763)	16,194	(681)
U.S.A.	310	(20)	4,637	(195)
Europe and others	3,974	(260)	7,051	(296)
	<u>97,590</u>	<u>(6,384)</u>	<u>117,130</u>	<u>(4,924)</u>
Unallocated corporate expenses		<u>(10,230)</u>		<u>—</u>
		<u>(16,614)</u>		<u>(4,924)</u>

5. LOSS FROM OPERATING ACTIVITIES

This is arrived at after charging:

	2001 HK\$'000	2000 HK\$'000
Fixed assets written off	–	1,027
Depreciation	<u>2,744</u>	<u>7,920</u>

6. TAXATION

No provision for Hong Kong profits tax has been made since the Group did not generate any assessable profits during the period. (2000: Nil)

Taxation for the period represents overprovision for Hong Kong profits tax in previous years.

7. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted earnings (loss) per share is based on the following data:

	2001 HK\$'000	2000 HK\$'000
Earnings (Loss)		
Earnings (loss) for the purposes of		
basic earnings (loss) per share		
(Profit (loss) for the period)	140,526	<u>(15,184)</u>
Interest expenses saved on conversion of		
convertible notes	<u>198</u>	
Earnings for the purpose of		
diluted earnings per share	<u>140,724</u>	
	'000	'000
Number of shares		
Weighted average number of shares for the		
purpose of basic earnings (loss) per share	5,182,737	<u>358,005</u>
Effect of dilutive convertible notes	595,628	
Effect of dilutive share options	<u>135,519</u>	
Weighted average number of shares for the		
purpose of diluted earnings per share	<u>5,913,884</u>	

8. DIVIDENDS

The directors do not declare the payment of a dividend (2000: nil).

9. PROPERTY, PLANT AND EQUIPMENT

	Total HK\$'000
Balance at 1 April 2001	6,436
Additions	7,220
Depreciation during the period	(2,744)
Disposals	(1,005)
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Balance at 30 September 2001	<u>9,907</u>

10. ACCOUNTS RECEIVABLE

The Group allows a credit period of 60 to 90 days to its customers. The ageing analysis is as follows:

	30 September 2001		31 March 2001	
	Balance HK\$'000	Percentage	Balance HK\$'000	Percentage
Current to 30 days	24,078	81	24,218	78
31 – 60 days	3,703	13	3,030	10
61 – 90 days	1,225	4	1,498	5
Over 90 days	636	2	2,335	7
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>29,642</u>	<u>100</u>	<u>31,081</u>	<u>100</u>

11. ACCOUNTS PAYABLE

	30 September 2001		31 March 2001	
	Balance HK\$'000	Percentage	Balance HK\$'000	Percentage
Current to 30 days	10,702	30	12,998	35
31 – 60 days	9,138	25	3,717	10
61 – 90 days	2,635	7	4,989	13
Over 90 days	13,806	38	15,575	42
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>36,281</u>	<u>100</u>	<u>37,279</u>	<u>100</u>

12. CONVERTIBLE NOTES

	30 September 2001 HK\$'000	31 March 2001 HK\$'000
Variable rate convertible notes due in 2004	<u>10,000</u>	<u>–</u>

At the option of the convertible note holders, the variable rate convertible notes due in 2004 can be converted into ordinary shares of the Company of HK\$0.005 each at par at an exercise price of HK\$0.01 per share.

13. SHARE CAPITAL

	30 September 2001 HK\$'000	31 March 2001 HK\$'000
Authorised:		
15,000,000,000 ordinary shares of HK\$0.005 each	<u>75,000</u>	<u>100</u>
Issued and fully paid:		
8,793,105,542 ordinary shares of HK\$0.005 each	<u>43,966</u>	<u>1,790</u>

The changes in the Company's issued share capital which took place during the period were as follows:

- a. On 16 May 2001, the authorised share capital of the Company was increased from HK\$100,000 to HK\$75,000,000 by the creation of a further 14,980,000 shares of HK\$0.005 each, ranking pari passu with the existing shares of the Company.
- b. On 14 June 2001, the Company issued a total of 7,293,105,542 shares of HK\$0.005 each at nominal value, during the Group reorganisation as more fully described in note 2 to the condensed financial statements.
- c. During the period, certain convertible note holders have converted HK\$15,000,000 of convertible notes in exchange for the issue of 1,500,000,000 shares of HK\$0.005 each at nominal value at the conversion price of HK\$0.01 each.

For the purpose of preparing the condensed financial statements of the Group in merger accounting basis as described in note 1 to the condensed financial statements, an aggregate of 358,004,664 shares of HK\$0.005 each issued in exchange of the shares of Honko out of those shares issued pursuant to the group reorganisation were included in the comparative figures as if the current group structure has been in existence since that date.

Share Options

At 30 September 2001, the outstanding share options under the share option scheme effective on 16 May 2001 were as follows:

Date of grant	Exercisable period	Exercise price per share	Number of share options outstanding at 30 September 2001
31 August 2001	12 September 2001 - 11 September 2011	0.043	160,000,000
31 August 2001	24 September 2001 - 23 September 2011	0.043	640,000,000
			800,000,000

14. RESERVES

	Share Premium	Contributed Surplus	Capital Reserve	Exchange Fluctuation Reserve	Special Reserve	Accumulated Losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2001	-	125,535	1,255	-	(1,270)	(382,516)	(256,996)
Premium on issue of shares	73,668	-	-	-	-	-	73,668
Share issue expenses	(4,209)	-	-	-	-	-	(4,209)
Loans from a shareholder waived on group reorganisation	-	-	-	33,728	-	-	33,728
Profit for the period	-	-	-	-	-	140,526	140,526
At 30 September 2001	69,459	125,535	1,255	33,728	(1,270)	(241,990)	(13,283)

15. CONTINGENT LIABILITIES

	30 September 2001 HK\$'000	31 March 2001 HK\$'000
Bills discounted with recourse	-	513

16. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group has entered into a subscription agreement with Hamilton Apex Technology Ventures, L.P. (the "Fund") which the Group has contributed HK\$21 million in cash into the capital of the Fund. The Group holds approximately 16.9% interest in the total committed capital of the Fund.

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results and Dividends

Turnover of the Group stood at approximately HK\$98 million for the six months ended 30 September 2001. After a successful debt restructuring arrangement, net profit attributable to shareholders amounted close to HK\$141 million during this interim period, compared with a net loss of HK\$15 million for the corresponding six months ended 30 September 2000. Earnings per share were HK2.7 cents (six months ended 30 September 2000: loss per share HK4.2 cents).

The Board has resolved not to pay any interim dividend to shareholders (2000: Nil).

Business Review and Analysis

The Group underwent a process of reorganization during the period which contributed HK\$161 million to the net profit for the period under review, hence the financial results for the six months ended 30 September 2001 mainly reflected the performance of Honko, our pre-existing business, and the result of reorganization. Honko is involved in the manufacturing of electronic parts. The Group will continue to consolidate Honko's operations by implementing effective cost control policies while broadening its customer base to achieve a sound financial position. Despite weak market sentiments, the Group recorded a net profit and managed to reduce its administration and other operating expenses by 5% and financial costs by 48% for the period under review, which resulted from the consolidation of operations and process improvements.

The borrowings of the Group amounted to HK\$118 million at the balance sheet date, which comprised of finance lease payable of HK\$14 million, variable rate convertible notes of HK\$10 million, and variable rate bonds of US\$12 million (equivalent to approximately HK\$94 million). The variable rate bonds of US\$12 million were issued on 28 August 2001. The net proceeds have become part of the Group's working capital.

During the period under review, we successfully transformed the Company's net asset value from a negative position to a positive level. As at the balance sheet date, the Group's gearing ratio stood at approximately 79% (calculated at total borrowings over total borrowings and equity). We assure to further alleviate the debt level. We also significantly improved our current ratio from 0.22 to 2.64.

Under the restructuring which took place during the period under review, management implemented several strategic changes in identifying new sources of income and market opportunities of high value and significant growth. The Company has also been very dedicated in setting up a team of experts to lead the Group's overall business development through new injection of talent. The Company is delighted to welcome Mr. Kwon Sang Hun and Mr. Yun Jong Suk to the board of Directors. Both have extensive experience in identifying investments with financially sound growth opportunities.

Biotechnology

During the period under review, the Company identified a sound investment opportunity by investing in the top life science focused technology venture capital fund, Hamilton Apex Technology Ventures, L.P. ("Hamilton Apex") based in San Diego, California. In October 2001, the Group had entered into agreement regarding its first tranche of investment in the US\$165 million venture capital fund, Hamilton Apex. The Company's ability to raise funds for this investment provides resounding proof of the confidence investors have in our business decisions. Given the Company has been granted first right of refusal for market rights and licences in Asia from Hamilton Apex's investee companies, the Company will act as a channel and platform for exchanging cutting edge, revolutionary technology and long-term capital source across the Pacific through downstream market penetration. The Company is perfectly positioned to capture tremendous opportunities that will arise from this investment due to our vast network of connections within the region.

Franchising

Whilst moving into investment opportunities such as investing in intellectual property assets and their cross applications, the Company has also positioned itself as the channel/platform of exchange. In the future, the Company confidently anticipates it will be able to create a vast business network through alliances with sound, sizeable corporations for building its global existence.

Asset Management

In terms of developing its asset management division, the Company sees itself as playing the role of an intermediary between venture capitalists and investment projects which have greatest potential to be listed in capital markets in the Greater China Region in the future. Negotiations and discussions are currently at a preliminary stage and progressing smoothly.

Employees Remuneration Policy

The Group currently employs approximately 1,100 staff.

The Group continues to employ, promote and reward its staff based on their performance, experience and potential, giving opportunities to existing staff whenever possible. The Group also provides in-house training as an important element of staff development.

The Group also rewards Hong Kong employees with a contributory provident fund, various medical insurance plans, medical and hospitalization in addition to their basic salary. A share option scheme has also been established for select employees of the Group.

Outlook

Management is strongly committed to establishing a renowned position in the region especially in China. We believe our investments to date will yield considerable returns in the near future as each investment decision has been subjected to rigorous scrutiny. Equipped with a team of forward looking and highly experienced professionals, the Company will continue to consolidate its existing business as well as to identify business opportunities in a prudent manner.

Despite the lacklustre market conditions, exacerbated by recent terrorist attacks in US, there is nonetheless, an abundance of undiscovered opportunities waiting to be tapped. These opportunities are in intellectual property assets, particularly in cutting edge biotech, information technology and their cross applications of which the Group is at the forefront. We have demonstrated our reputation by our ability to raise funds by only investing in entities with sound returns. We have tapped into the most prominent venture capital fund so as to compete in this knowledge economy as well as to grow the value of the company. The Group will continue to develop a firm financial footing whilst pursuing its diversification and strategic moves. We are aware that over time a company's share price is ultimately related to the company's productive value. This will be our priority for the years ahead.

Plans are currently afoot to explore on-line sports entertainment business models that are already successfully in operation. Rest on skyrocketing growth of Internet usage, together with the occasion arises from the 2002 World Cup, it is bound to attract immense cross-boarder business opportunities. The Company is currently actively looking out for investment opportunities in this area and shall make announcement to the public in accordance with the Listing Rules once binding agreements are reached with other parties.

ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES

Directors' Interests in Share Capital and Options

As at 30 September 2001, the interests of the directors of the Company in the listed share capital of the Company or its associated corporations, within the meaning 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 (Note (a))	3,726,400,000
Mr. Wong Chong Kwong, Derek	Corporate (Note (a))	3,726,400,000
Mr. Chan Chung Yin, Victor	Corporate (Note (a))	3,726,400,000
Mr. Lam Yat Keung	Personal	3,200,000
	Family (Note (b))	412,500,000

Notes:

- 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.
- These shares are held by Ms. Lam Pik Wah, the wife of Mr. Lam Yat Keung, personally and a company controlled by her.

As at 30 September 2001, the directors had interests in share options to subscribe for shares in the Company as follows:

Name of director	Type of Interest	Number of Share Options Granted
Exercise price of HK\$0.043 per share, exercisable from 24 September 2001 to 23 September 2011		
Dr. Li Zhong Yuan	Personal	200,000,000
Mr. Wong Chong Kwong, Derek	Personal	190,000,000
	Family (Note a)	160,000,000
Mr. Chan Chung Yin, Victor	Personal	90,000,000

Note:

- These share options are held by Ms. Wong Kit Wai, Peggy, the wife of Mr. Wong Chong Kwong, Derek.

Save as disclosed above, as at 30 September 2001, 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

As at 30 September 2001, 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 to Section 16(1) of the SDI Ordinance.

Name	Number of Shares Held	Percentage of Issued Shares
Pacific Annex Capital Limited	3,726,400,000	42.4%

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.

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 from 1 April 2001 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 30 September 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Code of Best Practice

Pursuant to the Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, Honko had, in place, an audit committee, which comprised two independent non-executive directors of Honko, throughout the period from 1 April 2001 to the date of the listing of the Company's shares.

The Restructuring Proposal was completed on 14 June 2001. However the Company has not set up an audit committee to perform its duties until 30 November 2001, which comprises two independent non-executive directors of the Company which is required by the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange (the "Code of Best Practice").

In the opinion of the directors of the Company, save as the above, the Company has complied with the rest of the 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.

On behalf of the Board
Mr. Wong Chong Kwong, Derek
Chief Executive Officer

Hong Kong, 21 December 2001