

Condensed Consolidated Financial Statements

The Board of Directors (“Board”) of Hikari Tsushin International Limited (“Company”) presents the unaudited interim results of the Company and its subsidiaries (collectively “Group”) for the six months ended 31 January 2002, together with the comparative figures. These interim financial statements have not been audited, but have been reviewed by the Company’s audit committee and external auditors, Messrs Ernst & Young, Certified Public Accountants in Hong Kong.

Condensed Consolidated Profit and Loss Account

	(Unaudited) For the six months ended 31 January 2002	(Unaudited) For the six months ended 31 January 2001	(Unaudited) For the six months ended 30 September 2000
	HK\$'000	HK\$'000	HK\$'000
TURNOVER			
– Continuing operations	128,730	135,322	152,553
– Discontinuing operations	144,877	198,688	146,338
	273,607	334,010	298,891
Cost of sales	(249,537)	(275,740)	(260,678)
Gross profit	24,070	58,270	38,213
Other revenue	16,193	30,129	38,910
Selling and distribution costs	(17,042)	(19,007)	(19,065)
Administrative expenses	(55,060)	(53,337)	(47,774)
Provision for impairment on long-term investments	(156,749)	–	–
PROFIT/(LOSS) FROM OPERATING ACTIVITIES			
– Continuing operations	(156,747)	10,648	28,800
– Discontinuing operations	(31,841)	5,407	(18,516)
	(188,588)	16,055	10,284
Finance costs	(1,738)	(3,571)	(3,488)
PROFIT/(LOSS) BEFORE TAX	(190,326)	12,484	6,796
Tax	(663)	(1,443)	(1,434)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(190,989)	11,041	5,362
Minority interests	663	1,016	988
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	(190,326)	12,057	6,350
EARNINGS/(LOSS) PER SHARE			
Basic	(4.08 cents)	0.26 cent	0.14 cent
Diluted	N/A	0.24 cent	0.12 cent

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Condensed Consolidated Statement of Recognised Gains and Losses

	(Unaudited) For the six months ended 31 January 2002 <i>HK\$'000</i>	(Unaudited) For the six months ended 31 January 2001 <i>HK\$'000</i>	(Unaudited) For the six months ended 30 September 2000 <i>HK\$'000</i>
Surplus/(deficit) on revaluation of long-term investments credited/(charged) to the investments revaluation reserve, net	(86,553)	(55)	2
Impairment losses on long-term investments included in above revaluation and taken to the profit and loss account during the period	156,749	–	–
Exchange differences on translation of the financial statements of foreign entities	–	–	(3)
Net profit/(loss) not recognised in the profit and loss account	70,196	(55)	(1)
Net profit/(loss) from ordinary activities attributable to shareholders	(190,326)	12,057	6,350
Total recognised gains/(losses)	(120,130)	12,002	6,349

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Condensed Consolidated Balance Sheet

		(Unaudited) At 31 January 2002 <i>HK\$'000</i>	(Audited) At 31 July 2001 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets		183,931	197,586
Long-term investments		155,049	202,211
Other assets		467	467
		339,447	400,264
CURRENT ASSETS			
Inventories		83,440	125,156
Trade receivables	7	23,512	58,368
Prepayments, deposits and other receivables		14,151	13,774
Short-term investments		86,662	–
Due from minority shareholders of subsidiaries		11,578	10,914
Tax recoverable		–	208
Pledged deposits		78,000	78,000
Cash and cash equivalents		211,828	322,188
		509,171	608,608
CURRENT LIABILITIES			
Trade payables	8	38,593	74,203
Trust receipt loans	9	55,433	52,410
Tax payable		7,308	6,851
Other payables and accruals		62,978	63,414
Interest-bearing bank loans and other borrowings	9	12,693	19,194
Convertible note payable		93,420	93,420
		270,425	309,492
NET CURRENT ASSETS		238,746	299,116
TOTAL ASSETS LESS CURRENT LIABILITIES		578,193	699,380
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	9	195	425
Deferred tax		5,753	5,753
		5,948	6,178
		572,245	693,202
CAPITAL AND RESERVES			
Issued capital		116,595	116,595
Reserves	10	455,650	576,607
		572,245	693,202

Condensed Consolidated Financial Statements

Condensed Consolidated Cash Flow Statement

	(Unaudited) For the six months ended 31 January 2002 <i>HK\$'000</i>	(Unaudited) For the six months ended 31 January 2001 <i>HK\$'000</i>	(Unaudited) For the six months ended 30 September 2000 <i>HK\$'000</i>
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	6,052	(62,114)	6,827
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	2,213	17,448	18,259
TAX REFUNDED/(PAID), NET	2	(20)	15
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<u>(122,849)</u>	<u>(111,523)</u>	<u>(211,228)</u>
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES	(114,582)	(156,209)	(186,127)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	<u>(6,710)</u>	<u>(7,661)</u>	<u>(24,078)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(121,292)	(163,870)	(210,205)
Cash and cash equivalents at beginning of period	300,551	604,972	862,272
Effect of foreign exchange rate changes, net	-	-	(5)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>179,259</u>	<u>441,102</u>	<u>652,062</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	211,828	462,335	33,320
Time deposits with original maturity of less than three months when acquired	-	-	628,664
Bank overdrafts	(7)	-	(113)
Trust receipt loans repayable within three months	<u>(32,562)</u>	<u>(21,233)</u>	<u>(9,809)</u>
	<u>179,259</u>	<u>441,102</u>	<u>652,062</u>

Notes to Condensed Consolidated Financial Statements

Notes to Condensed Consolidated Financial Statements

1. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with the Hong Kong Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting". The accounting policies and basis of calculation used in the preparation of these interim financial statements are consistent with those used in the audited financial statements for the sixteen months ended 31 July 2001.

2. SEGMENT INFORMATION

The Group is principally engaged in investment in Internet, Internet-related, mobile phones and mobile phone-related activities, manufacture and trading of batteries, silicone rubber products and electronic finished products and trading of electronic parts and components. On 15 March 2002, the Group disposed of its businesses in manufacture and trading of electronic finished products and trading of electronic parts and components, which have, therefore, been classified as "discontinuing operations" in this interim financial statements. The results of operations by principal activities for the six months ended 31 January 2002, 31 January 2001 and 30 September 2000 are respectively summarised as follows:

	(Unaudited) For the six months ended 31 January 2002 HK\$'000	(Unaudited) For the six months ended 31 January 2001 HK\$'000	(Unaudited) For the six months ended 30 September 2000 HK\$'000
Turnover			
<i>Continuing operations:</i>			
Investment in Internet, Internet-related, mobile phones and mobile phone-related activities	—	—	—
Manufacture and trading of batteries	117,246	119,801	135,846
Manufacture and trading of silicone rubber products	11,484	15,521	16,707
	128,730	135,322	152,553
<i>Discontinuing operations:</i>			
Manufacture and trading of electronic finished products	128,746	155,519	97,550
Trading of electronic parts and components	16,131	43,169	48,788
	144,877	198,688	146,338
Total (Note (iii))	273,607	334,010	298,891

Notes to Condensed Consolidated Financial Statements

2. SEGMENT INFORMATION (Continued)

	(Unaudited) For the six months ended 31 January 2002 HK\$'000	(Unaudited) For the six months ended 31 January 2001 HK\$'000	(Unaudited) For the six months ended 30 September 2000 HK\$'000
Contribution to profit/(loss) from operating activities			
<i>Continuing operations:</i>			
Investment in Internet, Internet-related, mobile phones and mobile phone-related activities	(157,217)	6,786	14,785
Manufacture and trading of batteries	(789)	1,180	10,587
Manufacture and trading of silicone rubber products	772	1,968	2,693
Others	487	714	735
	<u>(156,747)</u>	<u>10,648</u>	<u>28,800</u>
<i>Discontinuing operations:</i>			
Manufacture and trading of electronic finished products	(30,393)	2,217	(22,665)
Trading of electronic parts and components	(1,448)	3,190	4,149
	<u>(31,841)</u>	<u>5,407</u>	<u>(18,516)</u>
Total (Note (iii))	<u>(188,588)</u>	<u>16,055</u>	<u>10,284</u>

Notes to Condensed Consolidated Financial Statements

2. SEGMENT INFORMATION (Continued)

Notes:

- (i) No turnover in relation to the Group's investment activity is noted for the six months ended 31 January 2002 (for the six months ended 31 January 2001 and 30 September 2000: nil) and accordingly no analysis of the turnover by geographical areas is presented.
- (ii) An analysis of the turnover in relation to the Group's manufacture and trading activities by geographical areas for the six months ended 31 January 2002, 31 January 2001 and 30 September 2000 is respectively as follows:

	(Unaudited) For the six months ended 31 January 2002 HK\$'000	(Unaudited) For the six months ended 31 January 2001 HK\$'000	(Unaudited) For the six months ended 30 September 2000 HK\$'000
<i>Continuing operations:</i>			
People's Republic of China (the "PRC")			
– Hong Kong (Note (iv))	31,025	44,063	52,886
– Elsewhere	30,721	33,079	36,520
Asia (other than PRC)	18,381	8,860	13,466
Europe	27,282	27,572	26,060
America	17,034	17,054	21,024
Other countries	4,287	4,694	2,597
	128,730	135,322	152,553
<i>Discontinuing operations:</i>			
People's Republic of China (the "PRC")			
– Hong Kong (Note (iv))	95,676	97,801	120,498
– Elsewhere	–	48	828
Asia (other than PRC)	42,212	89,937	9,172
Europe	4,032	3,985	7,944
America	2,919	4,510	6,809
Other countries	38	2,407	1,087
	144,877	198,688	146,338
Total	273,607	334,010	298,891

Notes to Condensed Consolidated Financial Statements

2. SEGMENT INFORMATION (Continued)

- (iii) The contribution to profit/(loss) from operating activities in relation to the Group's activities by geographical areas for the six months ended 31 January 2002, 31 January 2001 and 30 September 2000 is respectively analysed as follows:

	(Unaudited) For the six months ended 31 January 2002 HK\$'000	(Unaudited) For the six months ended 31 January 2001 HK\$'000	(Unaudited) For the six months ended 30 September 2000 HK\$'000
<i>Continuing operations:</i>			
PRC			
– Hong Kong	(53,970)	17,247	22,778
– Elsewhere	(63,906)	(8,383)	(6,516)
Asia (other than PRC)	(28,664)	176	7,054
Europe	(6,915)	773	2,154
America	(3,454)	405	3,136
Others	162	430	194
	<u>(156,747)</u>	<u>10,648</u>	<u>28,800</u>
<i>Discontinuing operations:</i>			
PRC			
– Hong Kong	(21,994)	2,475	(17,964)
– Elsewhere	–	(3)	(18)
Asia (other than PRC)	(9,825)	3,573	(196)
Europe	(13)	(233)	(170)
America	(9)	(264)	(145)
Others	–	(141)	(23)
	<u>(31,841)</u>	<u>5,407</u>	<u>(18,516)</u>
Total	<u>(188,588)</u>	<u>16,055</u>	<u>10,284</u>

- (iv) The Directors believe that many of the Group's products sold in Hong Kong have been subsequently re-exported by the Group's customers to other markets, but there are no means of identifying or quantifying the market for such sales.

3. OTHER REVENUE

	(Unaudited) For the six months ended 31 January 2002 HK\$'000	(Unaudited) For the six months ended 31 January 2001 HK\$'000	(Unaudited) For the six months ended 30 September 2000 HK\$'000
Interest income	3,951	21,019	21,747
Gain on disposal of long-term investments	238	–	5,894
Unrealised gain on short-term investments	6,932	–	–
Tooling and subcontracting income	3,849	5,287	5,732
Exchange gains, net	–	679	1,409
Others	1,223	3,144	4,128
	<u>16,193</u>	<u>30,129</u>	<u>38,910</u>

Notes to Condensed Consolidated Financial Statements

4. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax was determined after charging the following:

	(Unaudited) For the six months ended 31 January 2002 HK\$'000	(Unaudited) For the six months ended 31 January 2001 HK\$'000	(Unaudited) For the six months ended 30 September 2000 HK\$'000
Interest expenses	1,738	3,571	3,488
Provision for impairment on long-term investments transferred from investments revaluation reserve (note 10)	156,749	–	–
Depreciation	<u>14,735</u>	<u>15,548</u>	<u>14,487</u>

5. TAX

The Group provides for tax on the basis of its profit for financial reporting purpose, adjusted for income and expense items which are not assessable nor deductible for profits tax purpose.

Hong Kong profits tax for the Company and its subsidiaries in Hong Kong has been provided at the rate of 16% (for the six months ended 31 January 2001 and 30 September 2000: 16%) on the estimated assessable profits arising in Hong Kong during the current period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	(Unaudited) For the six months ended 31 January 2002 HK\$'000	(Unaudited) For the six months ended 31 January 2001 HK\$'000	(Unaudited) For the six months ended 30 September 2000 HK\$'000
Hong Kong	–	16	–
Elsewhere	<u>663</u>	<u>1,427</u>	<u>1,434</u>
Tax charged for the period	<u>663</u>	<u>1,443</u>	<u>1,434</u>

6. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share for the six months ended 31 January 2002 is based on the net loss attributable to shareholders of HK\$190,326,000 (net profit attributable to shareholders for the six months ended 31 January 2001 of HK\$12,057,000) and on the weighted average of 4,663,785,628 (weighted average during the six months ended 31 January 2001 of 4,663,785,608) ordinary shares in issue.

The calculation of basic earnings per share for the six months ended 30 September 2000 is based on the net profit attributable to shareholders of HK\$6,350,000 and on the weighted average during the same period of 4,663,772,458 ordinary shares in issue.

The calculation of diluted earnings per share for the six months ended 31 January 2001 and 30 September 2000 is based on the net profit attributable to shareholders of HK\$12,057,000 and HK\$6,350,000 respectively and the weighted average of 5,090,594,233 shares and 5,248,047,746 shares, being the weighted average number of shares for the purposes of basic earnings per share of these two periods, adjusted by the effects of all dilutive potential ordinary shares during these periods respectively.

Notes to Condensed Consolidated Financial Statements

6. EARNINGS/(LOSS) PER SHARE (Continued)

Reconciliation of the weighted average numbers of shares for the purposes of the basic and diluted earnings per share for the six months ended 31 January 2001 and 30 September 2000 respectively is as follows:

	For the six months ended 31 January 2001	For the six months ended 30 September 2000
Weighted average number of ordinary shares in issue in the calculation of basic earnings per share	4,663,785,608	4,663,772,458
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all the warrants outstanding during the current period	11,608,625	169,075,288
Assumed issued at no consideration on deemed exercise of the convertible note in full during the current period	415,200,000	415,200,000
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>5,090,594,233</u>	<u>5,248,047,746</u>

Diluted loss per share for the six months ended 31 January 2002 has not been calculated as the convertible note, warrants and options outstanding during that period had an anti-dilutive effect on the basic loss per share for that period.

7. TRADE RECEIVABLES

	(Unaudited) At 31 January 2002 HK\$'000	(Audited) At 31 July 2001 HK\$'000
Ageing		
Current to 90 days	23,238	57,105
91 – 180 days	110	1,045
Over 180 days	164	218
Total	<u>23,512</u>	<u>58,368</u>

The Group allows an average credit period of 60 days to its trade customers and keeps monitoring its outstanding trade receivables. Overdue balances are regularly reviewed by the senior management of the Group.

The above ageing analysis of trade receivables was based on the respective due dates of the sales of goods.

Notes to Condensed Consolidated Financial Statements

8. TRADE PAYABLES

	(Unaudited) At 31 January 2002 HK\$'000	(Audited) At 31 July 2001 HK\$'000
Ageing		
Current to 90 days	36,300	70,529
91 – 180 days	1,487	3,210
Over 180 days	806	464
Total	<u>38,593</u>	<u>74,203</u>

The above ageing analysis of trade payables was based on the respective due dates of the receipts of goods and services. Included in trade payables was a trade-related balance due to minority shareholders of subsidiaries amounting to HK\$566,000 (31 July 2001: HK\$1,085,000). The balance is unsecured, interest-free and is repayable on normal trading terms.

9. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	(Unaudited) At 31 January 2002 HK\$'000	(Audited) At 31 July 2001 HK\$'000
Bank overdrafts and current portion of bank loans, secured	12,693	18,691
Current portion of finance lease payables	–	503
	<u>12,693</u>	<u>19,194</u>
Bank overdrafts repayable within one year or on demand, secured	7	28
Bank loans repayable, secured:		
Within one year	12,686	18,663
In the second year	195	425
	<u>12,881</u>	<u>19,088</u>
Total of bank overdrafts and bank loans repayable, secured	12,888	19,116
Portion classified as current liabilities	(12,693)	(18,691)
Long-term liabilities	195	425
Trust receipt loans	55,433	52,410
Finance lease payable:		
Within one year	–	512
Total minimum finance lease payables	–	512
Future finance charges	–	(9)
	–	503
Portion classified as current liabilities	–	(503)
Long-term portion	–	–

Notes to Condensed Consolidated Financial Statements

10. RESERVES

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Investments revaluation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 July 2001 (Audited)	758,963	675	(118,000)	63	(65,094)	576,607
Changes in fair value of long-term investments	–	–	(86,553)	–	–	(86,553)
Transferred to profit and loss accounts upon disposal of long-term investment	–	–	(827)	–	–	(827)
Impairment losses on long-term investments transferred to profit and loss account	–	–	156,749	–	–	156,749
Loss for the period	–	–	–	–	(190,326)	(190,326)
At 31 January 2002 (Unaudited)	<u>758,963</u>	<u>675</u>	<u>(48,631)</u>	<u>63</u>	<u>(255,420)</u>	<u>455,650</u>

11. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	(Unaudited) At 31 January 2002 <i>HK\$'000</i>	(Audited) At 31 July 2001 <i>HK\$'000</i>
Potential long service payments (Note)	7,046	7,396
Bills discounted with recourse	2,548	1,797
	<u>9,594</u>	<u>9,193</u>

Note:

The amount represented the Group's potential liability at the balance sheet date on the assumption that all the employees who have completed the required number of years of service under the Employment Ordinance of Hong Kong (the "Ordinance") terminated their employment. As at 31 January 2002, there were 66 (31 July 2001: 72) employees who were eligible for such payments on termination of their employment. The Group is only liable to make such payments where the termination meets the required circumstances specified in the Ordinance, and on that basis, no provision has been made for this amount in the financial statements.

Notes to Condensed Consolidated Financial Statements

12. POST BALANCE SHEET EVENTS

Subsequent to the period under review, the Group had the following significant events:

- (i) In February 2002, the convertible note payable of HK\$93,420,000 was redeemed at a consideration of HK\$92 million;
- (ii) In February and April 2002, two of the Group's long-term investments were disposed of to independent third parties at a total consideration of approximately HK\$21 million. The losses arisen from the disposal have already been included in the provision for impairment for the period under review;
- (iii) In March 2002, the substantial shareholder of the Company, Noble Islands Int'l Limited placed 845,000,000 shares of the Company to independent investors at a price of HK\$0.045 per share and subscribed for 932,700,000 new shares of the Company at the same price;
- (iv) On 15 March 2002, the Group disposed of its businesses in manufacture and trading of electronic finished products and trading of electronic parts and components at a consideration of HK\$5 million. It is expected that the disposal will result in a loss of approximately HK\$64 million, which will be charged to the profit and loss account of the Group for the year ending 31 July 2002;
- (v) Pursuant to ordinary resolutions passed on 15 April 2002, the shareholders of the Company approved the following issues:
 - (a) The issue of convertible notes ("Notes") in an aggregate principal amount of HK\$70 million through a placing agent. The Notes bear an interest of 5% per annum and carry a right to convert the Notes into ordinary shares of the Company at the conversion price of HK\$0.055 per share for a period of two years upon the issue of the Notes. Moreover, the Notes are secured by all the issued ordinary shares in Golden Power Industries Limited, an indirect wholly-owned subsidiary of the Company, engaged in the manufacture and trading of batteries; and
 - (b) The granting of general mandate to issue securities of the Company with an aggregate nominal value not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue on 15 April 2002; and
- (vi) On 17 April 2002, the Group entered into two subscription agreements for the purposes of establishing a sino-foreign equity joint venture in the PRC with China Oil and Gas Pipeline Bureau, at a total consideration of HK\$90 million.

13. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved by the Board on 22 April 2002.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31 January 2002 (for the six months ended 31 January 2001 and 30 September 2000: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six-month period ended 31 January 2002, the Group had an unaudited net loss attributable to shareholders of approximately HK\$190 million, as compared with a net profit of approximately HK\$12 million recorded for the same period of last financial year. Accordingly, the basic loss per share of the Group was HK4.08 cents (for the six months ended 31 January 2001 and six months ended 30 September 2000, earnings per share: HK0.26 cent and HK0.14 cent respectively).

Business Review

During the period under review, the Group scaled down the investment plans in the mobile telecommunications and Internet sectors in the Asia-Pacific region excluding Japan amid unfavourable global investment environment. The Group acquired one new investment, which is engaged in the sale of smart cards and the provision of related support services in relation to an automated health card registration management system in the PRC, at a consideration of approximately HK\$42 million. In order to secure better shareholders' return for the Group's surplus funds, the Group invested in marketable securities in Hong Kong. As at 31 January 2002, the Group has invested totally approximately HK\$80 million in the listed securities in Hong Kong and recorded an unrealised profit of approximately HK\$7 million.

Hit by the worldwide slump in technology sector, the performance of the Group's existing long-term investments was still sluggish and only a few of them performed in line with their original business projections. Some of the invested companies were undergoing substantial business model restructurings or mergers. The Group was cautiously involved in the restructuring of those companies. However, some of them had experienced financial liquidity problems and were undergoing liquidation processes.

To reflect the current market situation and the fundamentals of the invested companies, the Group has reduced the fair value of its long-term investments by approximately HK\$87 million. Accordingly, the Group charged approximately HK\$157 million impairment on long-term investments to the profit and loss accounts and approximately HK\$70 million was credited to the investments revaluation reserve account.

Since there was no improvement for the electronics market, the performance of the Group's Electronic Finished Products and Trading of Electronic Parts and Components Businesses ("Electronics Division") was unsatisfactory. In view of the disappointing performance and uncertain future, the Group has disposed of these two businesses in March 2002.

The performance of the Group's Battery Business improved for the period under review. Its operating loss has substantially reduced despite severe market competition. For the Silicone Rubber Products Business, improvement has also been witnessed.

Employees and Remuneration Policy

As at 31 January 2002, the Group employed approximately 3,350 full-time employees and out of which 3,177 were in the PRC and 173 were in Hong Kong. Remuneration package is reviewed annually with reference to the market trend and prevailing legislation. Discretionary bonuses are granted to certain employees based on individual performance. In the PRC, the Group provides its employees with staff welfare in accordance with the prevailing labour law. Certain employees of the Group are entitled to medical insurance. Share options pursuant to the Company's share option schemes have been granted to certain employees, including a Director, of the Group during the period.

Financial Review

During the six months ended 31 January 2002, there was no movement of the share capital of the Company and it did not have any material acquisition and disposal of subsidiaries. As at 31 January 2002, the aggregated cash and bank balances of the Group amounted to approximately HK\$290 million. The liquidity position of the Group was as follows:

	31 January 2002	31 July 2001
Liquid ratio	1.57	1.56
Ratio of total liabilities to shareholders' equity	0.48	0.46

During the six-month period under review, the Group invested approximately HK\$122 million on marketable securities and an investment for long-term purpose. The Group also realised approximately HK\$4 million from the disposal of an investment property which had no material impact on the profit and loss account of the Group. The Group has continuously placed most of its funds in US dollar time deposits with sound financial institutions so as to minimise unfavourable risk factors, such as currency risk, credit risk and market risk and at the same time to enhance the return on capital. With the same objective, the Group had already settled the convertible note of HK\$93,420,000 in February 2002. January is traditionally a low season for the Manufacturing Business of the Group, hence the levels of trade receivables and trade payables as at 31 January 2002 were relatively low when compared with those of 31 July 2001.

As at 31 January 2002, the Group had outstanding bank borrowings of approximately HK\$68 million, out of which HK\$55 million represented the outstanding trust receipt loans. Most of these trust receipt loans were utilised to finance the purchases of raw materials, and the outstanding balance of which as at 31 January 2002 was slightly larger than that of 31 July 2001. As most of these trust receipt loans were denominated in Hong Kong dollar and US dollar, their exposure to fluctuations in exchange rate and interest rate was considered immaterial. In addition, the Group pledged deposits of HK\$78 million to secure general banking facilities.

Besides the general banking facilities, the Group's Battery Business also maintained several term loans totalling approximately HK\$13 million outstanding as at 31 January 2002, and most of which had been initially utilised to finance the Group's acquisition of production facilities in the PRC. Most of these term loans will be repayable within one year and were secured by a leasehold property and certain plant and machinery of the Group. As at 31 January 2002, the Group did not have any material capital expenditure commitments and its contingent liabilities were approximately HK\$10 million.

The aggregate net proceeds of approximately HK\$109 million from the placement and subscription of new shares in March 2002 and issuance of convertible notes in April 2002 will be used for general working capital purposes. On 19 April 2002, the Company announced that the Group diversified its existing businesses into natural gas business in the PRC. Besides, the Group will continue to identify other suitable projects.

Prospects

After the '911 incident' in the United States, the global economy has been adversely affected. Although some economic indicators at the beginning of the year 2002 suggested a modest recovery in the United States' economy, the Group believes that the recovery is still uncertain. Nevertheless, the Group holds a positive outlook on the PRC's economy and believes that the underlying economic growth will be supported by strong domestic demand. The Group foresees that the economic momentum will continue in the PRC, further backed up by the successful accession to WTO in 2001.

For the Investment Business Division, the Group continues to adopt a cautious and selective investment strategy and will consider liquidating some of the non-performing invested companies. For new investments, the PRC is one of the key targeting markets and the Group keeps looking for investments with attractive return. The Group will leverage on its management's expertise in investment field in soliciting projects to enhance its shareholders' return.

On the Manufacturing side, its performance will improve thanks to the disposal of the Electronics Division and the contribution of the Battery Business and Silicone Rubber Products Business. During the period under review, the Group has successfully developed its own 9 volt zinc chloride batteries which provide higher margin. Furthermore, both the Group's Battery Business and Silicone Rubber Products Business continue to gain recognition of multinational corporations based in the PRC.

Report of the Board

As stated above, the Group expects that the PRC is to become one of the countries with the strongest economic growth in the coming years and this will provide numerous attractive and lucrative investment opportunities. Therefore, the Group will focus on the PRC market to enhance its shareholders' value.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY AND DEBT SECURITIES

I Securities

As at 31 January 2002, the interests of the Directors and chief executive of the Company in the securities of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

Name	Nature of Interest	Number of Shares	Units of Warrants
Wong King Shiu, Daniel	Corporate (Note)	1,585,610,000	667,473,996

Note:

Mr Wong is the beneficial owner of the entire issued share capital of Noble Islands Int'l Limited ("Noble Islands"). In accordance with the SDI Ordinance, Mr Wong is deemed to be interested in the 1,585,610,000 shares of the Company ("Shares") and 667,473,996 units of warrants held by Noble Islands and all these shares are registered in the name of Kingston Securities Limited.

II Share Options

As at 31 January 2002, share options granted under the share option scheme adopted on 11 May 1993 ("Scheme I") were as follows:

Name or Category of Participant	Date of Grant	Exercise Price (HK\$)	Exercise Period	Closing Price Before Date of Grant (HK\$)	As at 1.8.2001	Lapsed during the period	Granted during the period	As at 31.1.2002
(i) Directors								
Wong Kui Shing, Danny	20.4.2000	0.7392	20.10.2000 - 19.4.2003	0.69	80,000,000	-	-	80,000,000
	12.12.2000	0.2096	12.6.2001 - 11.5.2003	0.265	22,000,000	-	-	22,000,000
Kan Kwok Shu	19.5.2000	0.5568	19.11.2000 - 11.5.2003	0.68	8,000,000	-	-	8,000,000
	15.8.2001	0.0893	15.2.2002 - 11.5.2003	0.116	-	-	8,000,000	8,000,000
Suzuki Masanori	20.4.2000	0.7392	20.10.2000 - 19.4.2003	0.69	40,000,000	-	-	40,000,000
	12.12.2000	0.2096	12.6.2001 - 11.5.2003	0.265	30,000,000	-	-	30,000,000
(ii) Employees								
	19.5.2000	0.5568	19.11.2000 - 11.5.2003	0.68	12,000,000	-	-	12,000,000
	15.8.2001	0.0893	15.2.2002 - 11.5.2003	0.116	-	-	12,000,000	12,000,000
(iii) Former Directors/ Employees								
	20.4.2000	0.7392	20.10.2000 - 19.4.2003	0.69	32,000,000	32,000,000	-	-
	17.5.2000	0.7392	17.11.2000 - 11.5.2003	0.71	36,000,000	-	-	36,000,000
	19.5.2000	0.5568	19.11.2000 - 11.5.2003	0.68	4,000,000	4,000,000	-	-
	12.12.2000	0.2096	12.6.2001 - 11.5.2003	0.265	23,000,000	23,000,000	-	-

As at 31 January 2002, no share options were granted under the share option scheme adopted by the Company on 31 January 2002.

During the period under review, options in respect of 59,000,000 Shares granted under the Scheme I lapsed and as at 31 January 2002, options in respect of 248,000,000 Shares were outstanding, out of which options in respect of 36,000,000 Shares were held by two former Directors who resigned on 30 November 2001 and under the terms of Scheme I, they have the rights to exercise the options until the expiry of three months from the date of resignation. All these outstanding options are exercisable in various exercise periods at the respective specified exercise price per Share. No option was exercised during the period under review.

The Directors do not consider it appropriate to disclose a theoretical value of the share options granted to the Directors and employees, because in the absence of a readily market value of the share options on the ordinary shares of the Company, the Directors were unable to arrive at an assessment of the value of these share options.

Save as disclosed above, the Company or any of its associated corporations did not grant to any Director, spouse or children under 18 years of age of any such Director any right to subscribe for securities of the Company or any of its associated corporations, nor had there been any exercise of such right by such persons during the period under review.

Save as disclosed above, as at 31 January 2002, none of the Directors, chief executive or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company and its associated corporations as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

In December 2001, the Company was notified by its then controlling shareholder, Hikari Tsushin, Inc (“Vendor”) that on 4 December 2001, it entered into a sale and purchase agreement (“Sale and Purchase Agreement”) to sell its entire equity interests in the Company to Noble Islands. Immediately following the completion of the Sale and Purchase Agreement, Noble Islands was interested in about 51.04% of the then issued share capital of the Company. Pursuant to the rules of the Hong Kong Codes on Takeovers and Mergers, Noble Islands was obliged to make mandatory unconditional cash offers of all the issued shares of the Company (“Offer Shares”), outstanding warrants and share options of the Company (“Offer”) other than those already owned by it and parties acting in concert with it. Subsequent to the close of the Offer and with the consent of the Executive of the Securities and Futures Commission, Noble Islands placed 17% of the then issued shares of the Company and all those Shares accepted under the Offer Shares. As at 31 January 2002, Noble Islands was interested in 1,585,610,000 Shares, representing approximately 34% of the then issued share capital of the Company.

As at 31 January 2002, the following parties having an interest of 10% or more of the issued share capital of the Company were recorded in the register required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of Shares	% of Issued Share Capital of the Company
Noble Islands <i>(Note)</i>	1,585,610,000	34.0%
Wong King Shiu, Daniel <i>(Note)</i>	1,585,610,000	34.0%

Note:

Mr Wong is the beneficial owner of the entire issued share capital of Noble Islands. In accordance with the SDI Ordinance, Mr Wong is deemed to be interested in the 1,585,610,000 Shares held by Noble Islands and which are registered in the name of Kingston Securities Limited.

Save as disclosed above, no other parties were recorded as having an interest of 10% or more of the issued share capital of the Company in the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance.

Report of the Board

CHANGES OF DIRECTORS

On 15 August 2001, Mr Abe Kazuhiko and Mr Tsujiguchi Takashi resigned as Directors and the vacancies were filled up by Mr Nakamura Tatsuya and Mr Mashita Hirokazu.

On 30 November 2001, Mr Yuen Tin Fan, Francis and Mr Chung Cho Yee, Mico resigned as Directors whilst Mr Hubert Chak, who had been appointed as alternate to Mr Chung Cho Yee, Mico on 15 August 2002, ceased to be alternate to Mr Chung.

On 25 January 2002, Mr Wong King Shiu, Daniel was appointed Director and Chairman of the Company subsequent to his acquisition of a controlling stake in the Company through his wholly-owned company, Noble Islands. On the same date, Mr Nakamura Tatsuya and Mr Mashita Hirokazu resigned as Directors whilst Mr Suzuki Masanori was re-designated as Non-executive Director.

On 5 April 2002, Mr Kan Fook Yee resigned as Independent Non-executive Director of the Company and Mr Cheung Man Yau, Timothy was appointed as Independent Non-executive Director to fill this casual vacancy. On the same date, Mr Lin Che Chu, George and Mr Chen Jian were appointed Directors.

Following the aforesaid changes of Directors, the Board of Directors consists of (i) five Executive Directors, namely, Mr Wong King Shiu, Daniel (the Chairman), Mr Wong Kui Shing, Danny, Mr Kan Kwok Shu, Mr Lin Che Chu, George and Mr Chen Jian; (ii) two Independent Non-executive Directors, namely, Mr Lau Wah Sum and Mr Cheung Man Yau, Timothy; and (iii) one Non-executive Director, namely, Mr Suzuki Masanori.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 12 to this interim financial statements.

AUDIT COMMITTEE

In accordance with the Code of Best Practice as set out in Appendix 14 ("Code of Best Practice") of the Listing Rules, the Board established an audit committee ("Audit Committee") in 1998. The Audit Committee, consisting of the two Independent Non-executive Directors of the Company, reviews and supervises the Group's financial reporting and internal control systems.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the auditing, internal controls and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 31 January 2002.

The interim financial report of the Company for the six months ended 31 January 2002 has been complied with Appendix 16 of the Listing Rules and reviewed by the auditors, Messrs Ernst & Young, in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants and an unqualified review report is issued.

CODE OF BEST PRACTICE

The Board is not aware of any information that would reasonably indicate that the Company is not, or was not, in compliance with the Code of Best Practice for any part of the accounting period covered by this report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 January 2002.

By Order of the Board
Hikari Tsushin International Limited
Wong King Shiu, Daniel
Chairman

Hong Kong, 22 April 2002