eFORCE HOLDINGS LIMITED

意 科 控 股 有 限 公 司

(Incorporated in Bermuda with limited liability)

2002

Interim report

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the six months ended 30 June 2002 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2002	2001
	Note	***$'000***	*$'000*
Turnover	*3*	**35,934**	87,258
Cost of sales/services		**(25,103)**	(69,787)
		10,831	17,471
Other revenue		**725**	9,861
Other net income		**1,643**	3,795
Distribution costs		**(7,619)**	(1,830)
Administrative expenses		**(25,413)**	(28,580)
Impairment loss on goodwill	*8*	**(31,000)**	–
Other operating expenses		**(2,851)**	(3,736)
Loss from operations	*3*	**(53,684)**	(3,019)
Finance costs	*4(a)*	**(13,545)**	(5,991)
Share of profits less losses of associates		**(2)**	(2)
Loss from ordinary activities before taxation	*4*	**(67,231)**	(9,012)
Taxation	*5*	**–**	–
Loss from ordinary activities after taxation		**(67,231)**	(9,012)
Minority interests		**567**	(259)
Loss attributable to shareholders		**(66,664)**	(9,271)
Loss per share	*6*		
Basic		**(5.37) cents**	(0.78) cents

The notes on pages 5 to 14 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2002 – unaudited
(Expressed in Hong Kong dollars)

	Share capital $'000	Share premium $'000	Exchange reserves $'000	Accumulated losses $'000	Total $'000
At 1 January 2001	56,843	1,251,594	(3,736)	(1,204,077)	100,624
Expenses incurred in connection with rights issue	–	(91)	–	–	(91)
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong	–	–	762	–	762
Net gains and losses not recognised in the profit and loss account	–	(91)	762	–	671
Loss for the period	–	–	–	(9,271)	(9,271)
At 30 June 2001	56,843	1,251,503	(2,974)	(1,213,348)	92,024
At 1 January 2002	58,488	1,313,987	(3,144)	(1,290,053)	79,278
Expenses incurred in connection with rights issue	–	(1,445)	–	–	(1,445)
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong	–	–	1,167	–	1,167
Net gains and losses not recognised in the profit and loss account	–	(1,445)	1,167	–	(278)
Issue of shares *(note 13)*	29,697	48,884	–	–	78,581
Loss for the period	–	–	–	(66,664)	(66,664)
At 30 June 2002	**88,185**	**1,361,426**	**(1,977)**	**(1,356,717)**	**90,917**

The notes on pages 5 to 14 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

at 30 June 2002 – unaudited
(Expressed in Hong Kong dollars)

	Note	**At 30 June 2002 $'000**	At 31 December 2001 $'000
Non-current assets			
Fixed assets		**65,127**	73,389
Goodwill	8	**11,335**	43,002
Interest in associates		**292**	294
Other non-current assets		**45,511**	58,506
		122,265	175,191
Current assets			
Inventories		**5,426**	4,236
Trade and other receivables	9	**28,580**	73,014
Pledged deposits with bank		**–**	75,179
Cash and bank balances		**7,223**	8,382
		41,229	160,811
Current liabilities			
Loans from banks and other financial institutions		**(14,993)**	(128,263)
Convertible notes	10	**(6,500)**	(71,243)
Trade and other payables	11	**(44,699)**	(50,801)
Taxation		**(5,056)**	(5,052)
		(71,248)	(255,359)
Net current liabilities		**(30,019)**	(94,548)
Total assets less current liabilities		**92,246**	80,643
Non-current liabilities			
Loans from banks and other financial institutions		**(458)**	–
Minority interests		**(871)**	(1,365)
Net assets		**90,917**	79,278
Capital and reserves			
Share capital	13	**88,185**	58,488
Reserves		**2,732**	20,790
		90,917	79,278

The notes on pages 5 to 14 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2002 – unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2002	2001
	$'000	*$'000*
Net cash inflow/(outflow) from operating activities	**37,374**	(21,971)
Net cash inflow/(outflow) from investing activities	**74,468**	(7,090)
Net cash (outflow)/inflow from financing activities	**(113,731)**	24,712
Decrease in cash and cash equivalents	**(1,889)**	(4,349)
Effect of foreign exchange rates	**730**	350
Cash and cash equivalents at 1 January	**8,382**	8,784
Cash and cash equivalents at 30 June	**7,223**	4,785
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	**7,223**	4,785

The notes on pages 5 to 14 form part of this interim financial report.

Notes on the unaudited interim financial report

(Expressed in Hong Kong dollars)

1. Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the Board of Directors is included on page 15. In addition, this interim financial report has been reviewed by the Company's Audit Committee.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the HKSA.

The financial information relating to the financial year ended 31 December 2001 included in the interim financial report does not constitute the statutory financial statements of the Company and its subsidiaries ("the Group") for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2001 are available from the Stock Exchange's website. The auditors have issued a modified report, having a paragraph dealing with a fundamental uncertainty in connection with the Group's ability to continue as a going concern, and expressed an unqualified opinion on those financial statements in their report dated 23 April 2002.

The same accounting policies adopted in the 2001 annual financial statements have been applied to the interim financial report.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2001 annual financial statements.

2. Going concern basis

Notwithstanding that the Group sustained recurrent losses and had net current liabilities as at 30 June 2002, including convertible notes of $6.5 million (note 10(a)) which are overdue and remain outstanding as of the date of approving this interim financial report, this interim financial report has been prepared on a going concern basis as the Directors of the Company are of the opinion that the Group is able to continue as a going concern and to meet its obligations as and when they fall due having regard to the following:

(i) loan facilities totalling $200 million made available to the Company from a financial institution; and

(ii) continuing financial support received from the ultimate holding company.

The Directors believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly it is appropriate that this interim financial report should be prepared on a going concern basis and does not include any adjustments that would be required should the Group fail to continue as a going concern.

3. Segment reporting

The Group has chosen business segment information as the primary reporting format because this is more relevant to the Group's internal financial reporting. The analysis of the Group's segment revenue and segment result for the period is as follows:

	Group segment revenue Six months ended 30 June		Group segment result Six months ended 30 June	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Business segments				
Healthcare and household products	**28,848**	60,851	**(2,621)**	(625)
Internet-related services	**1,837**	26,407	**(3,967)**	7,403
Enterprise applications software	**5,249**	–	**(37,280)**	–
	35,934	87,258	**(43,868)**	6,778
Other revenue – healthcare and household products	**568**	3,895		
	36,502	91,153		
Unallocated operating income and expenses			**(9,816)**	(9,797)
Loss from operations			**(53,684)**	(3,019)
Finance costs			**(13,545)**	(5,991)
Share of profits less losses of associates – Internet-related services			**(2)**	(2)
Loss from ordinary activities before taxation			**(67,231)**	(9,012)

3. Segment reporting *(continued)*

	Group turnover Six months ended 30 June	
	2002	2001
	$'000	*$'000*
Geographical locations of customers		
Europe	**7,849**	8,513
North America	**15,667**	42,967
Asia	**11,551**	34,549
Others	**867**	1,229
	35,934	87,258

There is no major disparity in the ratios between turnover and loss in relation to the above geographical locations, hence no analysis is given of the contributions to loss from the above geographical locations.

4. Loss from ordinary activities before taxation

Loss from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2002	2001
	$'000	*$'000*
(a) Finance costs:		
Interest on borrowings	**2,486**	5,991
Additional finance charges in connection with the US dollar convertible notes *(note 10(b))*	**11,059**	–
	13,545	5,991
(b) Other items:		
Depreciation	**6,620**	10,253
Amortisation of positive goodwill	**667**	–
Net loss on disposal of fixed assets	**1,949**	3,661
Profit on disposal of subsidiaries	**(1,966)**	–
Interest income	**(21)**	(5,966)

Pursuant to a sale and purchase agreement dated 2 April 2002, the Company disposed of certain of the Group's investments in subsidiaries, Wellrose Profits Limited and ChinaInfohighway Hong Kong Limited, at a nominal consideration. This transaction gave rise to a profit of $1,966,000 which is included in "Other net income" in the consolidated profit and loss account. The net assets and turnover of these subsidiaries were not significant to the Group's results for the period.

5. Taxation

No provision for Hong Kong and overseas Profits Tax has been made as the Group has no assessable profits arising in and outside Hong Kong during the period.

No deferred tax benefits in respect of the accumulated tax losses have been recognised as their realisation is not assured beyond reasonable doubt.

6. Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of $66,664,000 (2001: $9,271,000) and the weighted average number of ordinary shares of 1,241,694,692 (2001: 1,188,403,343) in issue during the period. The weighted average number of ordinary shares in issue for 2001 has been retrospectively adjusted for the effect of rights issue during the period.

(b) Diluted loss per share

No diluted loss per share is presented as the inclusion of the Company's share options, warrants and convertible notes, which were in issue during the period, would have an anti-dilutive effect.

7. Dividends

The Directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2002 (2001: $Nil).

8. Goodwill

	Positive goodwill *$'000*
Cost:	
At 1 January and 30 June 2002	47,780
Accumulated amortisation and impairment:	
At 1 January 2002	4,778
Charge for the period	667
Impairment loss	31,000
At 30 June 2002	36,445
Carrying amount:	
At 30 June 2002	**11,335**
At 31 December 2001	43,002

8. Goodwill *(continued)*

The Group's enterprise applications software development business is facing intense competition in the PRC. This is further affected by the high staff turnover during the period under review. Accordingly, the management has streamlined the operations by placing all resources on research and development while sales and marketing of the products are subcontracted to the designated distributors in the PRC. The Directors of the Company consider that the change in the business models affects the recoverable amount of the goodwill. Based on their assessment, the carrying amount of the goodwill was written down by $31 million. The estimate of the recoverable amount was based on the value in use of the operations, determined using a discount rate of 7%.

9. Trade and other receivables

Included in trade and other receivables are trade debtors (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	At 30 June 2002 **\$'000**	At 31 December 2001 *\$'000*
Current	**6,919**	2,091
1 to 3 months overdue	**1,031**	812
More than 3 months overdue but less than 12 months overdue	**2,211**	28,111
More than 12 months overdue	**11,162**	–
Total trade debtors	**21,323**	31,014
Deposits, prepayments and other receivables	**7,257**	42,000
	28,580	73,014

Trade debts are due within 30 days from the date of billing.

10. Convertible notes

	At 30 June 2002 **\$'000**	At 31 December 2001 *\$'000*
HK dollar convertible notes *(note (a))*	**6,500**	6,500
US dollar convertible notes *(note (b))*	**–**	64,743
	6,500	71,243

10. Convertible notes *(continued)*

(a) HK dollar convertible notes

On 1 February 2000, pursuant to a placing and underwriting agreement dated 16 December 1999 ("placing agreement") entered into between the Company and independent placing agents, 4% convertible notes which were convertible to ordinary shares of $0.05 each of the Company at any time between 1 April 2000 and 27 January 2002 at a conversion price of $0.42 (adjusted in 2000) were issued.

Since the noteholders did not exercise the conversion right before maturity and consents from all noteholders to extend the maturity date for one year have not been obtained, the management considers that the conversion right attaching to the convertible notes has lapsed and the convertible notes are due for repayment. As of the date of approving this interim financial report, the noteholders have not yet requested the Company to redeem the convertible notes.

(b) US dollar convertible notes

On 12 July 2001, the Company entered into a subscription agreement ("the agreement") with independent third parties to issue 3% convertible notes and warrants. During the period, due to the occurrence of a triggering event as stipulated in the agreement, the noteholders issued triggering event redemption notices in March 2002 and subsequently statutory demands in May 2002 to the Company requesting the repayment of the outstanding convertible notes together with the unpaid interest of approximately $61 million plus an additional charge equal to 15% of the aforementioned amount of approximately $9.1 million. In addition, due to the delay in the repayment, the Company paid a late charge of approximately $1.9 million. As a result, a total of $11 million has been charged to the consolidated profit and loss account and recognised as finance costs (note 4).

Each warrant, issued together with the convertible notes, entitles the holder to subscribe for one ordinary share of $0.05 each of the Company at any time during the three years after the issue of the warrants, at a subscription price of $1.6977 (subject to adjustment). During the period, no warrants were exercised. At 30 June 2002, the number of outstanding warrants was 11,945,186, after the adjustment for the effect of rights issue during the period.

11. Trade and other payables

Included in trade and other payables are trade creditors with the following ageing analysis:

	At 30 June 2002 *$'000*	At 31 December 2001 *$'000*
Due within 1 month or on demand	**7,466**	5,998
Due after 1 month but within 3 months	**5,035**	3,024
Due after 3 months but within 6 months	**571**	7
Due after 6 months	**165**	–
Total trade creditors	**13,237**	9,029
Other creditors and accrued charges	**31,462**	41,772
	44,699	50,801

12. Pledge of assets

At 30 June 2002, a loan from a financial institution of $9 million (at 31 December 2001: $8 million) was secured by the Group's land and buildings held for own use situated outside Hong Kong with a carrying value of $15.8 million (at 31 December 2001: $16 million).

13. Share capital

	No. of shares	**Amount** *$'000*
Authorised:		
Ordinary shares of $0.05 each at 31 December 2001 and 30 June 2002	6,000,000,000	300,000
Issued and fully paid:		
At 1 January 2002	1,169,754,065	58,488
Conversion of convertible notes *(note (a))*	6,050,461	302
Rights issue *(note (b))*	587,902,263	29,395
At 30 June 2002	**1,763,706,789**	**88,185**

13. Share capital *(continued)*

(a) During the period ended 30 June 2002, US dollar convertible notes of $3.9 million (equivalent to US$0.5 million) were converted by the noteholders at conversion prices ranging from $0.5 to $0.97, resulting in the issue of 6,050,461 ordinary shares of $0.05 each in the Company. An amount of $302,000 and $3,615,000 was credited to the share capital and the share premium account respectively. These ordinary shares were issued under the general mandate granted to the Directors at the annual general meeting held on 29 May 2001 and rank pari passu in all respects with the ordinary shares in issue.

(b) Pursuant to resolutions passed at the Directors' meetings held on 10 May and 26 June 2002, the Company issued 587,902,263 ordinary shares of $0.05 each in the Company at $0.127 per share by way of a rights issue in the proportion of one rights share for every two existing shares held. An amount of $29,395,000 and $45,269,000 was credited to the share capital and the share premium account respectively. The net proceeds of the rights issue of approximately $73 million were used for the redemption of the US dollar convertible notes (note 10(b)).

(c) At 30 June 2002, the outstanding share options were:

Date options granted	Period during which options exercisable	Exercise price	Number of options outstanding at the period end
10 July 2000	10 July 2001 to 9 July 2010	$0.392*	36,180,000*

* *After adjustment for the effect of rights issue during the period.*

During the period ended 30 June 2002, no share options were exercised and 180,000 share options (before the adjustment for the effect of rights issue) were cancelled.

14. Capital commitments

At 30 June 2002, the Group had the following capital commitments outstanding and not provided for in the financial statements:

	At 30 June 2002 ***$'000***	At 31 December 2001 *$'000*
Contracted for	**255**	3,155

15. Material related party transactions

(a) A wholly-owned subsidiary of the Company, eForce Management Limited ("eForce Management") entered into a lease agreement with the ultimate holding company to lease an office space for a period of 7 months commencing from 1 January to 31 July 2001 at a monthly rental of $142,800. The total rental payable to the ultimate holding company for the period ended 30 June 2001 amounted to $856,800. The lease was entered into on normal commercial terms. The Company was aware that this constituted a connected transaction by virtue of Mr. Leung Chung Shan's interest in the ultimate holding company but was exempted under Rule 14.24(5) of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

On 1 August 2001, eForce Management entered into an assignment agreement with the ultimate holding company, whereby the ultimate holding company agreed to assign its rights and obligations under the lease dated 15 December 1999 between the ultimate holding company and a third party ("the landlord") relating to the abovementioned office space ("the lease") to eForce Management at nil consideration. The property was used as the principal place of business of the Group in Hong Kong. The assignment agreement was negotiated on terms favourable to the eForce Management and the ultimate holding company provided a guarantee in favour to the landlord for eForce Management's obligations under the lease. As the assignment agreement constituted a connected transaction under the Listing Rules, the Company made an announcement pursuant to Rule 14.25(1) of the Listing Rules on 2 August 2001.

(b) During the period ended 30 June 2002, the Group was granted financial assistance from the ultimate holding company. At 30 June 2002, amount due to the ultimate holding company of $1 million (at 31 December 2001: $9.3 million) was unsecured, interest-free and had no fixed terms of repayment.

(c) During the period ended 30 June 2002, facility fee of $0.9 million (2001: $1.8 million) and consultancy fee of $nil (2001: $24.6 million) was charged by Beijing Infohighway Information and Technology Limited ("BIHW"), a non-wholly owned subsidiary of the Group, to China Infohighway Communications Co., Ltd ("IHW"), a substantial shareholder of BIHW, in accordance with the Cooperation Agreement and Supplemental Agreements between BIHW and IHW. The Company is aware that this constituted a connected transaction but was exempted under Rule 14.24(5) of the Listing Rules.

At 30 June 2002, included in trade debtors is an amount due from IHW of $13,373,000 (at 31 December 2001: 27,412,000) which is unsecured, interest-free and has no fixed terms of repayment.

16. Litigation

(a) In October 1999, Mersongate Holdings Limited, an independent third party (the "Plaintiff"), commenced an action against (1) Mr. Huen Raico Hing Wah, a former director of the Company; (2) Central Growth Limited and Bridal Path Corporation, former substantial shareholders of the Company and (3) the Company (collectively the "Defendants"), alleging that the Defendants have agreed to certain arrangements in relation to the share capital of the Company, including certain rights of the Plaintiff to participate in the share capital of the Company, and that the Defendants have failed to perform their respective obligations under the arrangements, and claiming specific performance or, alternatively, damages. The Company has no knowledge of and is not a party to the alleged arrangements. The Company has filed a defence against the claim and the Directors of the Company consider that no provision for the claim is necessary.

(b) During the period ended 30 June 2002, certain creditors of BIHW instituted proceedings against BIHW, claiming amounts totalling approximately RMB588,000 in respect of advertising services provided to BIHW. Full provisions for these claims have been included in this interim financial report.

17. Approval of interim financial report

This interim financial report was approved and authorised for issue by the Board of Directors on 23 September 2002.

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF eFORCE HOLDINGS LIMITED

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 1 to 14.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Fundamental uncertainty

In arriving at our review conclusion, we have considered the adequacy of the disclosures made in the interim financial report concerning the ability of the Group to continue as a going concern as it is relying on the continuing financial supports from a financial institution and the ultimate holding company. The failure of the Group to continue as a going concern would result in certain assets realising significantly less than the amounts stated in the balance sheet and the non-current assets and liabilities being reclassified as current assets and liabilities, and might lead to additional liabilities being incurred by the Group. Details of the circumstances relating to this fundamental uncertainty are described in note 2 on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2002.

KPMG
Certified Public Accountants

Hong Kong, 23 September 2002

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002 (2001: HK$ Nil per share).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the six months ended 30 June 2002, the Group achieved a turnover of HK$35,934,000 and a loss attributable to shareholders of HK$66,664,000 compared to the turnover of HK$87,258,000 and the loss of HK$9,271,000 in the same six months period last year. This represents a decrease of approximately 59% in turnover and a six times increase in loss attributable to shareholders.

The Group's manufacturing and export business of healthcare products had been impaired by the September 11 event in the USA. Customers in the USA and European markets had been canceling their orders after the incident. As a result, turnover derived from the manufacturing sector decreased by 53% to HK$28,848,000. Nevertheless, the management focused its effort to maintain competitiveness through costs control. Consequently, the gross profit margin improved when compared to the corresponding period last year. Loss attributed by the manufacturing sector increased three times to HK$2,621,000.

The Internet sector recorded HK$1,837,000 of turnover for the six months ended 30 June 2002. It represents a 93% decrease as compared to that recorded in the corresponding period last year. The intense competition faced by the Internet sector in the PRC has made it difficult to provide ISP services by China Infohighway Communications Co. Ltd. ("IHW"). Furthermore, the progress of the Intelligent Buildings project was stymied by the difficulty to secure the telecommunications service operating permit which is required under the new telecommunication rules. As such no consultancy fee was charged to IHW.

Results from operation attributed by the Internet sector recorded a loss of HK$3,967,000 as compared to a profit of HK$7,403,000 in the corresponding period last year. The loss attributed by the Internet sector was due to retrenchment of income during the period and also a significant portion of administrative expenses, including rental expenses, is incurred to maintain the Beijing office.

The software business development sector has also seen a trying start due to the intense competition faced in the PRC. This is further affected by the high staff turnover during the six months ended 30 June 2002. Consequently, the management has modified its business model by concentrating on the area of research and development while sales and marketing of the software products have been contracted to the designated distributors in the PRC. In view of the revised business models, the Group has provided HK$31 million for the impairment of goodwill arising from the acquisition of the software development business in October 2001. Turnover for the six months ended 30 June 2002 amounted to HK$5,249,000 (2001: HK$Nil). The increased in turnover as compared to the corresponding period last year was due to the Group acquired the software development business only in October 2001. Loss from operations amounted to HK$37,280,000 which included the HK$31 million provision for impairment of goodwill.

Prospects

It is expected that the US market is to recover in the fourth quarter of 2002 as the consumers' demand strengthened. In the mean time, the management of the manufacturing division has been restructured with the intention to enhance the competitiveness of the healthcare products. New machineries were added. The production, the moulding, the research and development as well as the marketing and sales departments had been totally overhauled. Along with the recovery of the US economy, the Board is confident that the results from the manufacturing sector will improve in the second half of the year.

While China is still in a period of high growth, there are ample opportunities in the peripheral business sector. The management believes that the Group is in a favourable position to take advantage of this situation. The Group will continue to adopt a prudent yet enterprising management approach to explore for new businesses and/or investments. The focal point is to create and build a steady and recurring income business model. This includes diversifying into businesses that have existing ongoing revenue.

Liquidity and Financial Resources

At 30 June 2002, the Group had a net current liability of HK$30,019,000 (31 December 2001: HK$94,548,000) and a current ratio of 0.58 (31 December 2001: 0.63). Cash and bank balances at 30 June 2002 were HK$7,223,000 (31 December 2001: HK$8,382,000). The gearing ratio, as a ratio of net borrowings (including convertible notes) to shareholders' equity was 16% (31 December 2001: 241%).

Borrowings at 30 June 2002 were all due within one year amounted to HK$21,951,000 (31 December 2001: HK$199,506,000). Secured borrowings amounted to HK$9,057,000 (31 December 2001: HK$97,363,000) were secured by a legal charge on certain leasehold land and buildings of the Group situated in the PRC with carrying value of approximately HK$15.8 million (31 December 2001: HK$16 million). The other assets previously pledged to secure borrowings outstanding at 31 December 2001 were discharged upon full repayment of the borrowings during the six month ended 30 June 2002.

On 26 June 2002, the Group completed the Rights Issue to qualifying shareholders of 587,902,263 rights shares on the basis of one rights share for every two existing shares held on record. The net proceeds received from the rights issue amounted to approximately HK$73 million were used mainly for the repayment of the outstanding amount due to the 3 percent Convertible Notesholders (the "Noteholders"). This includes the outstanding principal amount of HK$61 million and the additional finance charges amounted to HK$11 million incurred as a result of the early redemption notice issued by the Noteholders previously disclosed in the annual report 2001 of the Company.

Exposure to Fluctuations in Exchange Rates, Interest Rates and Related Hedges

To manage the risk associated with an uncertain market environment, the Group pursues a funding strategy of using equity as far as possible to finance long-term investments.

The Group's borrowings and cash and cash equivalents are primarily denominated in Hong Kong dollars, Renminbi and US dollars. The Group does not hedged against foreign exchange risk, as the managements believe the Hong Kong dollar will remain pegged to the US dollar in the foreseeable future and the exchange risk associated with the Renminbi is expected to be minimal.

The interest rates profile of the Group's borrowings are mainly fixed in nature.

MATERIAL CONTINGENT LIABILITIES

The Group is not aware of any material contingent liabilities during the six months ended 30 June 2002.

Employees and Remuneration Policies

At 30 June 2002, the Group employed approximately 47 (31 December 2001: 52) staff in Hong Kong and had approximately 641 (31 December 2001: 718) employees in Mainland China. As the business of the Group expands, the Board will continuously seek ways to strengthen the human resource area.

The management reviews its remuneration policy regularly and reward staffs through fair remuneration packages and other fringe benefits, which includes a Mandatory Provident Fund and medical insurance plans. In addition, the Group may also grant discretionary bonus to eligible staff based on the Group's performance and individual merits.

DISCLOSURE OF INTERESTS

(A) Directors' interests in shares

At 30 June 2002, the interests of the Directors and their respective associates in the share capital 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 (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Name of director	Nature of interest	Number of shares held
Leung Chung Shan	Corporate *(Note)*	924,000,000
	Personal	58,212,000

Note: 924,000,000 shares are held by Tees Corporation, a Company incorporated in the British Virgin Islands and is wholly-owned by Mr. Leung Chung Shan.

(B) Shares options

At 30 June 2002, the movement in the options of the Company were as follows:

			Options *(note i)*				
			Number of options				
Grantees	Date of grant	Exercise price per share (Adjusted) *(note ii)*	Outstanding at 1 January 2002	Lapsed during the period	Exercised during the period	Adjusted during the period *(note ii)*	Outstanding at 30 June 2002
Directors	–	–	–	–	–	–	–
Employees	10 July 2000	HK$0.392	24,300,000	(180,000)	–	12,060,000	36,180,000

Notes:

(i) The options were granted under the share option scheme adopted by the Company on 2 June 1997. The options are exercisable subject to the terms and conditions stipulated each time options are granted. All the options granted will expire at the end of ten years from the date of grant.

(ii) The adjustments were made after the effects of the rights issue during the period.

Save as disclosed above, at 30 June 2002, none of the directors or their respective associates had any personal, family, corporate or other interests in the share capital of the Company or any of its associated corporation as defined in the SDI Ordinance.

Apart from the foregoing, at no time during the period was the Company or any of its holding Companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

(C) Substantial interests in the share capital of the Company

At 30 June 2002, according to the register kept by the Company under Section 16(1) of the SDI Ordinance and so far as was known to the Directors of the Company, the following persons were interested or taken or deemed to be interested in 10 per cent. or more of the nominal value of the issued share capital of the Company:

	Number of shares held	**Percentage of total issued shares**
Tees Corporation *(Note 1)*	924,000,000	52.39%
Leung Chung Shan *(Note 2)*	982,212,000	55.69%

Notes:

1. Tees Corporation is a Company incorporated in the British Virgin Islands and is wholly-owned by Mr. Leung Chung Shan.

2. By virtue of Tees Corporation's interests in 924,000,000 shares, Mr. Leung Chung Shan is deemed to be interested in 982,212,000 shares.

Save as disclosed above, the Company is not aware of any other registered shareholders who holds 10% or more of the issued share capital of the Company at 30 June 2002.

(D) Directors' interests in contracts

Apart from the transactions set out in note 15 of the unaudited interim financial report, in which Mr. Leung Chung Shan through its shareholdings in Tees Corporation, the ultimate holding company of the Group, is interested, no other contracts of significance to which the Company, its holding company or any of their subsidiaries was a party, in which a director of the Company had a material interest, subsisted at the end of the period or at any time during the period ended 30 June 2002.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 June 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DISCLOSURE UNDER PRACTICE NOTE 19 OF LISTING RULES

As disclosed in the annual report of 2001, the Group's non-current deposits amounted to approximately HK$44 million at 30 June 2002 (31 December 2001: HK$57 million) represents a quality deposit paid to China Infohighway Communications Co., Ltd ("IHW") pursuant to the Cooperation Agreement and the Supplemental Agreements (collectively "the Agreements") entered into between the Group and IHW. During the period under review, the Group received HK$13 million as partial repayment of the quality deposits for decline in business operation in IHW. Save for the aforesaid, there has been no other change to the circumstances.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters including the review of unaudited interim financial report for the six months ended 30 June 2002.

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice throughout the period except that independent non-executive directors are not appointed for a specific term as recommended under Appendix 14 of the Listing Rules. According to the Bye-laws of the Company, independent non-executive directors of the Company will retire by rotation, and their appointment will be reviewed when they are due for re-election. In the opinion of the Company, this meets the same objective as the Code of Best Practice.

By Order of the Board
Leung Chung Shan
Chairman and Executive Director

Hong Kong, 23 September 2002