

The cover page features a blue background with a central globe and a person working at a computer. A yellow L-shaped line is positioned on the left side, with a small yellow circle at its top-right corner. The text 'Interim Report 2002' is centered within this yellow line.

Interim Report 2002



TECHCAP HOLDINGS LIMITED
科達集團 (控股) 有限公司
(incorporated in Bermuda with limited liability)



The Board of Directors ("Directors") of TechCap Holdings Limited (the "Company") is pleased to present the unaudited consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2002. These interim financial statements have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT - UNAUDITED

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2002

| | Notes | For the six months ended 30th September, | |
|--|-------|---|---------------------------------|
| | | 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
| Turnover | 3 | 114,687 | 97,590 |
| Cost of sales | | <u>(107,294)</u> | <u>(88,485)</u> |
| Gross profit | | 7,393 | 9,105 |
| Other operating income | | 2,569 | 426 |
| Administrative costs | | (23,258) | (22,031) |
| Other operating expenses | | <u>(83)</u> | <u>(832)</u> |
| Loss from operations | 4 | (13,379) | (13,332) |
| Gain on financial restructuring net of expenses | | - | 158,159 |
| Finance costs | 5 | <u>(2,593)</u> | <u>(5,308)</u> |
| (Loss) profit before taxation | | (15,972) | 139,519 |
| Taxation | 6 | <u>-</u> | <u>1,007</u> |
| (Loss) profit for the period | | <u>(15,972)</u> | <u>140,526</u> |
| (Loss) earnings per share | 7 | | |
| - Basic (HK cents) | | <u>(0.13)</u> | <u>2.7</u> |
| - Diluted (HK cents) | | <u>(0.13)</u> | <u>2.4</u> |

**CONDENSED CONSOLIDATED BALANCE SHEET – UNAUDITED**

AT 30TH SEPTEMBER, 2002

| | Notes | At 30th September, 2002 (Unaudited) HK\$'000 | At 31st March, 2002 (Audited) HK\$'000 |
|--|-------|--|--|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 9 | 6,202 | 8,725 |
| Investments in securities | | 43,526 | 28,526 |
| Loan receivables | | 22,808 | 22,086 |
| Exchangeable loan receivable | | 20,000 | - |
| | | <u>92,536</u> | <u>59,337</u> |
| CURRENT ASSETS | | | |
| Inventories | | 37,500 | 41,883 |
| Trade receivables | 10 | 29,539 | 25,406 |
| Prepayments, deposits and other receivables | | 12,148 | 2,567 |
| Investments in securities | | - | 108 |
| Loan receivables | | 13,772 | 3,820 |
| Exchangeable loan receivable | | 12,500 | 12,500 |
| Good faith deposit | | - | 10,000 |
| Bank balances and cash | | 5,729 | 11,547 |
| | | <u>111,188</u> | <u>107,831</u> |
| CURRENT LIABILITIES | | | |
| Trade payables | 11 | 44,361 | 43,256 |
| Other payables and accrued liabilities | | 29,833 | 26,788 |
| Obligations under finance leases | | 4,144 | 5,300 |
| Amounts due to related companies | | 5,321 | 532 |
| Amounts due to directors | | 3,992 | 773 |
| Bonds | 12 | 14,040 | 39,000 |
| | | <u>101,691</u> | <u>115,649</u> |
| NET CURRENT LIABILITIES | | <u>9,497</u> | <u>(7,818)</u> |
| | | <u>102,033</u> | <u>51,519</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 14 | 66,161 | 51,411 |
| Reserves | | 29,959 | (9,819) |
| | | <u>96,120</u> | <u>41,592</u> |
| NON-CURRENT LIABILITIES | | | |
| Obligations under finance leases | | 5,413 | 7,427 |
| Convertible notes | 13 | 500 | 2,500 |
| | | <u>5,913</u> | <u>9,927</u> |
| | | <u>102,033</u> | <u>51,519</u> |



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2002

| | Share Capital HK\$'000 <i>(Note 14)</i> | Share Premium HK\$'000 | Contributed Surplus HK\$'000 | Capital Reserve HK\$'000 | Exchange Fluctuation Reserve HK\$'000 | Special Reserve HK\$'000 | Accumu- lated Losses HK\$'000 | Total HK\$'000 |
|--|--|------------------------------|------------------------------------|--------------------------------|--|--------------------------------|--|-------------------|
| At 1st April, 2002 | 51,411 | 102,810 | 125,535 | 1,255 | (1,270) | 33,728 | (271,877) | 41,592 |
| Issue of shares upon exercise of share options | 5,000 | 46,000 | - | - | - | - | - | 51,000 |
| Issue of shares upon conversion of convertible notes | 1,000 | 1,000 | - | - | - | - | - | 2,000 |
| Issue of shares through placement and subscription | 8,750 | 8,750 | - | - | - | - | - | 17,500 |
| Loss for the period | - | - | - | - | - | - | (15,972) | (15,972) |
| At 30th September, 2002 | 66,161 | 158,560 | 125,535 | 1,255 | (1,270) | 33,728 | (287,849) | 96,120 |
| | Share Capital HK\$'000 | Share Premium HK\$'000 | Contributed Surplus HK\$'000 | Capital Reserve HK\$'000 | Exchange Fluctuation Reserve HK\$'000 | Special Reserve HK\$'000 | Accumu- lated Losses HK\$'000 | Total HK\$'000 |
| At 1st April, 2001 | 1,790 | - | 125,535 | 1,255 | (1,270) | - | (382,516) | (255,206) |
| Issue of shares upon the Group reorganisation | 34,676 | 66,168 | - | - | - | - | - | 100,844 |
| Issue of shares upon the conversion of convertible notes | 7,500 | 7,500 | - | - | - | - | - | 15,000 |
| 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 30th September, 2001 | 43,966 | 69,459 | 125,535 | 1,255 | (1,270) | 33,728 | (241,990) | 30,683 |

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED**

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2002

| | For the six months ended 30th September, | |
|---|---|---------------------------------|
| | 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
| Net cash used in operating activities | (12,464) | (71,666) |
| Net cash used in investing activities | (39,262) | (29,540) |
| Net cash from financing activities | 45,908 | 187,165 |
| Net (decrease) increase in cash and cash equivalents | (5,818) | 85,959 |
| Cash and cash equivalents at 1st April | 11,547 | (34,471) |
| Cash and cash equivalents at 30th September | 5,729 | 51,488 |
| ANALYSIS OF CASH AND CASH EQUIVALENTS | | |
| Bank balances and cash | 5,729 | 51,508 |
| Bank overdrafts | - | (20) |
| | 5,729 | 51,488 |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2002

1. BASIS OF PRESENTATION

The condensed consolidated interim financial statements are prepared in accordance with the requirements of the Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting", issued by the Hong Kong Society of Accountants (the "HKSA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of investment in securities.

The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31st March, 2002, except that the Group has adopted the following new and revised SSAPs issued by the HKSA which became effective for accounting periods commencing on or after 1st January, 2002:

| | |
|-------------------|--|
| SSAP 1 (revised) | : Presentation of financial statements |
| SSAP 11 (revised) | : Foreign currency translation |
| SSAP 15 (revised) | : Cash flow statements |
| SSAP 34 | : Employee benefits |

The adoption of the above new and revised SSAPs has no material effect on the Group's results and net asset value other than presentational changes. Certain comparative figures have been reclassified to conform with the current period's presentation.

3. SEGMENT INFORMATION

The Group is currently organised into three operating divisions - manufacturing of electronic parts and components, sourcing and distribution of electronic parts and components, and investment holding. These divisions are the basis on which the Group reports its primary segment information.

**3. SEGMENT INFORMATION** (Continued)

The Group's operations are principally located in Hong Kong and other regions of the People's Republic of China. An analysis of the Group's revenue and segment results by business and geographical segments is as follows:

Business segments

| Income statement | Manufacturing of electronic parts and components (Unaudited) HK\$'000 | Sourcing and distribution of electronic parts and components (Unaudited) HK\$'000 | Investment holding (Unaudited) HK\$'000 | Consolidated (Unaudited) HK\$'000 |
|--|--|---|--|---|
| For the six months ended 30th September, 2002 | | | | |
| Segment revenue | <u>108,616</u> | <u>6,071</u> | - | <u>114,687</u> |
| Segment results | <u>(2,213)</u> | <u>(124)</u> | <u>38</u> | <u>(2,299)</u> |
| Unallocated operating income | | | | 2,531 |
| Unallocated corporate expenses | | | | <u>(13,611)</u> |
| Loss from operations | | | | <u>(13,379)</u> |
| Finance costs | | | | <u>(2,593)</u> |
| Loss before taxation | | | | <u>(15,972)</u> |
| For the six months ended 30th September, 2001 | | | | |
| Segment revenue | <u>94,339</u> | <u>3,251</u> | - | <u>97,590</u> |
| Segment results | <u>(6,171)</u> | <u>(213)</u> | <u>(1,107)</u> | <u>(7,491)</u> |
| Unallocated operating income | | | | 378 |
| Unallocated corporate expenses | | | | <u>(6,219)</u> |
| Loss from operations | | | | <u>(13,332)</u> |
| Gain on financial restructuring net of expenses | | | | 158,159 |
| Finance costs | | | | <u>(5,308)</u> |
| Profit before taxation | | | | <u>139,519</u> |



3. SEGMENT INFORMATION *(Continued)*

Geographical segments

| | Segment revenue | | Segment results | |
|--------------------------------|--|---------------------------------|--|---------------------------------|
| | For the six months ended 30th September, | | For the six months ended 30th September, | |
| | 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 | 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
| Hong Kong | 98,156 | 81,641 | (1,962) | (6,448) |
| Other Asian countries | 13,197 | 11,665 | (269) | (763) |
| United States of America | 912 | 310 | (19) | (20) |
| Europe and others | 2,422 | 3,974 | (49) | (260) |
| | <u>114,687</u> | <u>97,590</u> | <u>(2,299)</u> | <u>(7,491)</u> |
| Unallocated operating income | | | 2,531 | 378 |
| Unallocated corporate expenses | | | (13,611) | (6,219) |
| Loss from operations | | | <u>(13,379)</u> | <u>(13,332)</u> |

4. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging (crediting):

| | For the six months ended 30th September, | |
|--|--|---------------------------------|
| | 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
| Depreciation of property, plant and equipment | 1,832 | 2,744 |
| Unrealised holding loss on investments in securities | - | 1,151 |
| Loss (gain) on disposal of investments in securities | 38 | (44) |
| Loss (gain) on disposal of property, plant and equipment | <u>99</u> | <u>(10)</u> |



5. FINANCE COSTS

For the six months
ended 30th September,

| | 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
|---|---------------------------------|---------------------------------|
| Interest on: | | |
| Bank loans, overdrafts and other borrowings wholly repayable within five years | 123 | 3,880 |
| Bonds | 140 | 936 |
| Convertible notes | 28 | 198 |
| Obligations under finance leases | 305 | 294 |
| Premium on redemption of bonds | 1,997 | - |
| | <u>2,593</u> | <u>5,308</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 (2001: Nil).

Taxation for the prior period represents overprovision for Hong Kong Profits Tax in previous years.



7. (LOSS) EARNINGS PER SHARE

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

| | For the six months ended 30th September, | |
|--|---|---------------------------------|
| | 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
| (Loss) profit for the period and (loss) earnings for the purposes of basic (loss) earnings per share | (15,972) | 140,526 |
| Effect of dilutive potential ordinary shares: | | |
| Interest on convertible notes | 28 | 198 |
| (Loss) earnings for the purposes of diluted (loss) earnings per share | (15,944) | 140,724 |
| | '000 | '000 |
| Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share | 11,898,226 | 5,182,737 |
| Effect of dilutive potential ordinary shares: | | |
| Options | 83,880 | 595,628 |
| Convertible notes | 25,905 | 135,519 |
| Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share | 12,008,011 | 5,913,884 |

8. DIVIDENDS

No dividends were paid during the period. The directors do not recommend the payment of any interim dividend (2001: Nil).

**9. PROPERTY, PLANT AND EQUIPMENT**

| | Total HK\$'000 |
|---|--------------------------|
| Net book value at 1st April, 2002 | 8,725 |
| Additions | 183 |
| Depreciation for the period | (1,832) |
| Disposals | (874) |
| | <hr/> |
| Net book value at 30th September, 2002 | 6,202 |
| | <hr/> |

10. TRADE RECEIVABLES

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

| | At 30th September, 2002 | | At 31st March, 2002 | |
|----------------------------|------------------------------------|---------------------------|----------------------------------|-------------------------|
| | Balance (Unaudited) HK\$'000 | Percentage (Unaudited) | Balance (Audited) HK\$'000 | Percentage (Audited) |
| Current to overdue 30 days | 24,946 | 84 | 20,849 | 82 |
| Overdue 31 - 60 days | 3,022 | 10 | 2,162 | 9 |
| Overdue 61 - 90 days | 1,063 | 4 | 1,148 | 4 |
| Overdue over 90 days | 508 | 2 | 1,247 | 5 |
| | <hr/> | | <hr/> | |
| Total | 29,539 | 100 | 25,406 | 100 |
| | <hr/> | | <hr/> | |

11. TRADE PAYABLES

The ageing analysis of trade payables of the Group is as follows:

| | At 30th September, 2002 | | At 31st March, 2002 | |
|----------------------------|------------------------------------|---------------------------|----------------------------------|-------------------------|
| | Balance (Unaudited) HK\$'000 | Percentage (Unaudited) | Balance (Audited) HK\$'000 | Percentage (Audited) |
| Current to overdue 30 days | 20,037 | 45 | 16,202 | 37 |
| Overdue 31 - 60 days | 7,981 | 18 | 5,120 | 12 |
| Overdue 61 - 90 days | 2,662 | 6 | 1,366 | 3 |
| Overdue over 90 days | 13,681 | 31 | 20,568 | 48 |
| | <hr/> | | <hr/> | |
| Total | 44,361 | 100 | 43,256 | 100 |
| | <hr/> | | <hr/> | |



12. BONDS

| | HK\$'000 |
|--------------------------------|----------------------|
| At 1st April, 2002 | 39,000 |
| Redeemed during the period | <u>(24,960)</u> |
| At 30th September, 2002 | <u>14,040</u> |

The bonds carry interest at 12% per annum. At any time on or before the maturity date of 27th August, 2003, the Company is entitled to redeem the bonds at the 108% of face value of the bonds without interest. In addition, at any time on or after 27th August, 2002 and up to the maturity date, the bond holders may require the Company to redeem the whole principal amount of the bonds at 100% of face value of the bonds without interest.

13. CONVERTIBLE NOTES

| | HK\$'000 |
|--------------------------------|-------------------|
| At 1st April, 2002 | 2,500 |
| Converted during the period | <u>(2,000)</u> |
| At 30th September, 2002 | <u>500</u> |

The convertible notes carry interest at the best lending rate payable quarterly in arrears with the first interest payment due on 13th September, 2001 and the last interest payment due on 13th June, 2004. Each note entitles the holder to convert the note into new shares of the Company at a conversion price, subject to adjustment, of HK\$0.01 per share during the period from 14th June, 2001 to 13th June, 2004.



14. SHARE CAPITAL

| | Number of shares '000 | Nominal value HK\$'000 |
|---|-----------------------------|------------------------------|
| Authorised: | | |
| Ordinary shares of HK\$0.005 each At 1st April, 2002 | 15,000,000 | 75,000 |
| Increased on 6th September, 2002 | <u>85,000,000</u> | <u>425,000</u> |
| At 30th September, 2002 | <u>100,000,000</u> | <u>500,000</u> |
| Non-voting preference shares of HK\$10.00 each | | |
| At 1st April, 2002 | – | – |
| Increased on 6th September, 2002 | <u>100,000</u> | <u>1,000,000</u> |
| At 30th September, 2002 | <u>100,000</u> | <u>1,000,000</u> |
| Issued and fully paid: | | |
| Ordinary shares of HK\$0.005 each At 1st April, 2002 | 10,282,106 | 51,411 |
| Issue of shares upon exercise of share options | 1,000,000 | 5,000 |
| Issue of shares upon conversion of convertible notes | 200,000 | 1,000 |
| Issue of shares through placement and subscription | <u>1,750,000</u> | <u>8,750</u> |
| At 30th September, 2002 | <u>13,232,106</u> | <u>66,161</u> |

Pursuant to a placing and subscription agreement dated 29th July, 2002 (the "Placing and Subscription Agreement"), Pacific Annex Capital Limited, a substantial shareholder of the Company ("Pacific Annex") and Dr. Li Zhong Yuan, a director and chairman of the Company ("Dr. Li") on 2nd August, 2002 placed the independent third parties an aggregate of 1,350,000,000 shares and 500,000,000 shares of HK\$0.005 each in the Company at the placing price of HK\$0.01 per share respectively. Concurrently, pursuant to the Placing and Subscription Agreement, Pacific Annex and Dr. Li on 5th August, 2002 subscribed for and were allotted with an aggregate of 1,250,000,000 shares and 500,000,000 shares of HK\$0.005 each in the Company at the issue price of HK\$0.01 per share respectively, of which HK\$0.005 per share was credited to the share premium account of the Company. The net proceeds from the issue of new shares are intended to be utilised for the repayment of liabilities and general working capital purpose.



14. SHARE CAPITAL *(Continued)*

On 6th September, 2002, the shareholders of the Company have passed a resolution to approve that the authorised share capital of the Company was increased from HK\$75,000,000 to HK\$1,500,000,000 by the creation of a further 85,000,000,000 ordinary shares of HK\$0.005 each (which rank *pari passu* in all respects with the existing share capital of the Company) and a new class of shares which consists of 100,000,000 non-voting preference shares of HK\$10.00 each (which attach thereto the respective rights and privileges and be subject to the respective restrictions set out in the Bye-laws of the Company.)

Share Options

At 30th September, 2002, the following options to subscribe for shares were outstanding under the Company's share option scheme:

| Date of grant | Exercisable period | Exercise price per share HK\$ | Number of share options |
|-------------------|--|----------------------------------|-------------------------|
| 31st August, 2001 | From 31st August, 2001 to 30th August, 2011 | 0.043 | 220,000,000 |

15. CONTINGENT LIABILITIES

As at 30th September, 2002, the Group had contingent liabilities in respect of bills discounted with recourse of approximately HK\$366,000 (31st March, 2002: HK\$501,000).

In addition, the Company has provided guarantee to the landlord of a rented premise of one of its subsidiaries. Pursuant to which, the subsidiary will duly observe and perform all terms and conditions and will pay all monies in accordance with the tenancy agreement.

16. CAPITAL CALL

Included in investments in securities of the Group, an investment in Hamilton Apex Technology Ventures, L.P. (the "Partnership"), a Delaware Limited Partnership with its headquarter formed in San Diego, California, amounting to US\$2.7 million (equivalent to HK\$21,026,000) which represents approximately 16.9% interest in the Partnership. As at 30th September, 2002, the Group may be asked to contribute additional capital of up to US\$12.3 million (equivalent to HK\$95,940,000) to the Partnership upon request (if any) by the general partner of the Partnership.



17. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 30th September, 2002 and up to the date of approval of these financial statements:

- (a) Pursuant to a placing and subscription agreement dated 27th September, 2002 (the "Agreement"), Pacific Annex and Dr. Li on 2nd October, 2002 placed the independent third parties an aggregate of 1,300,000,000 shares and 500,000,000 shares of HK\$0.005 each in the Company at the placing price of HK\$0.005 per share respectively. Concurrently, pursuant to the Agreement, Pacific Annex and Dr. Li on 5th October, 2002 subscribed for and were allotted with an aggregate of 1,300,000,000 shares and 500,000,000 shares of HK\$0.005 each in the Company at the issue price of HK\$0.005 per share respectively. The net proceeds from the issue of new shares are intended to be utilised for the repayment of liabilities and general working capital purpose.

- (b) On 7th October, 2002, the shareholders of the Company have passed a resolution to approve that every 200 issued and unissued ordinary shares of HK\$0.005 each ("Existing Share(s)") in the share capital of the Company be consolidated into one ordinary share of HK\$1.00 each ("Consolidated Share(s)") ("Consolidation").

The Consolidated Shares will rank *pari passu* in all respects with the Existing Shares in issue prior to the Consolidation becoming effective and the rights attaching to the Consolidated Shares will not be affected by the Consolidation. The Consolidation has no impact on non-voting preference shares of HK\$10.00, when issued. The Consolidation is not expected to have any impact on the outstanding share options granted and convertible notes issued, save for the consequential adjustments (if any) in accordance with the terms of the relevant instruments.

17. POST BALANCE SHEET EVENTS *(Continued)*

- (c) On 30th October, 2002, the Company announced a proposal that the nominal value of all the issued and unissued Consolidated Shares in the capital of the Company be reduced from HK\$1.00 to HK\$0.10 each ("Capital Reduction") and the entire amount of approximately HK\$102,810,000 standing to the credit of the share premium account of the Company as at 31st March, 2002 be cancelled in the following manner:
- (i) the nominal value of each issued Consolidated Share will be reduced from HK\$1.00 to HK\$0.10 by the cancellation of HK\$0.90 of the paid-up capital on each issued Consolidated Share;
 - (ii) the credit created in (i) above will be transferred to the contributed surplus account of the Company and then applied to eliminate part of the audited accumulated losses standing in the financial statements of the Company as at 31st March, 2002 ("Accumulated Losses");
 - (iii) the entire amount of approximately HK\$102,810,000 standing to the credit of the share premium account of the Company as at 31 March, 2002 will be cancelled and the credit arising therefrom will be transferred to the contributed surplus account of the Company and then applied to eliminate the balance of the Accumulated Losses; and
 - (iv) the then existing authorised but unissued ordinary share capital of the Company (including that arising from the Capital Reduction) will be cancelled, and the authorised share capital of the Company will be subsequently increased to the original authorised share capital of HK\$1,500,000,000 by the creation of an additional 4,924,839,473 ordinary shares of HK\$0.10 and the maintaining of 100,000,000 non-voting preference shares of HK\$10.00 each.



MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results and Dividends

During the six months ended 30th September, 2002, the Group recorded a turnover of HK\$114.7 million (2001: HK\$97.6 million) and a loss attributable to shareholders of HK\$16 million (2001: HK\$140.5 million profit). The basic loss per share for the period was HK0.13 cents (2001: earnings per share HK2.7 cents).

The directors do not recommend the payment of any interim dividend to the shareholders (2001: Nil).

Business Review and Analysis

The unaudited financial results of the Group for the six months ended 30th September, 2002 reflected a loss of HK\$16 million while the figure was a profit of HK\$140.5 million in the prior period. During the period, other than absence of gain on financial restructuring of HK\$158.2 million which is non-current in nature and decrease in finance costs of HK\$2.7 million, the loss before taxation of the Group almost the same as compared with that of the corresponding period in prior year.

During the period under review, there was a sustained downturn of the global demand for electronic parts. In order to improve the Group's competitive position in the market, the management of the Group put more efforts on broadening its customer base and enlarging the overseas market coverage. Therefore, the turnover of the Group increased by 17.5% to HK\$114.7 million for the six months ended 30th September, 2002. The increase in turnover of HK\$17.1 million comprised of HK\$14.3 million which contributed by the manufacturing business and HK\$2.8 million which contributed by sourcing and distribution business.

Same as the strategic business objectives of the Group in last year, the management continued to focus on the Group's principal business of investment holdings in knowledge based economy and make great efforts in identifying new sources of income and market opportunities of high value and significant growth in the areas of intellectual property rights. The Company has also been devoted in setting up a team of experts to lead the Group's overall business development through new injection of talent. Therefore, the Company appointed Dr. Ni Aimin, Alex who has extensive experience in medical profession and medical related software development and Dr. Ma Yin Ming who was seasoned accounting and financial expert in the Mainland China to the board of Directors.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Liquidity and Financial Resources

As at 30th September, 2002, the total borrowings of the Group amounted to HK\$24.1 million, which comprised of obligations under finance leases of HK\$9.6 million, variable rate convertible notes of HK\$0.5 million, and variable rates bonds of HK\$14 million. The management of the Group was dedicated to alleviate the debt level, therefore, the Group's gearing ratio at the balance sheet date has improved to 0.25 (which was calculated at total borrowings over shareholder's equity of HK\$96.1 million). The current ratio also slightly improved from 0.93 to 1.09.

Contingent Liabilities

The contingent liabilities of the Group as at 30th September, 2002 was HK\$0.4 million (31st March, 2002: HK\$0.5 million) of bills discounted with recourse. In addition, the Company has provided guarantee to the landlord of a rented premise of one of its subsidiaries. Pursuant to which, the subsidiary will duly observe and perform all terms and conditions and will pay all monies in accordance with the tenancy agreement.

Employees Remuneration Policies

The Group currently employs approximately 1,300 staff.

The Group continues to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Staff benefits include contributions to the Mandatory Provident Fund Schemes and discretionary bonus payment which is linked to the performance of the Group and individual performance. The share option schemes have also been established for employees of the Group.

Outlook

The Group currently focuses on identifying and investing in the highest value and soundest intellectual property assets, particularly those relating to cutting edge biotechnology, life science, information technology and their cross applications in medicine, agriculture and other industries.

Despite an uncertain global economic environment, there is nonetheless, an abundance of undiscovered opportunities waiting to be tapped, especially in the Mainland China. We can note that the Mainland China continues to prosper at a GDP growth of over 7% despite such lacklustre global market conditions. Therefore, the management of the Group is contemplating in implementing several strategic initiatives in the near future, in order to establish a channel and platform for exchanging technology and capital sources across Pacific and build up the Group's position in the region, especially Mainland China.

**ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES****Directors' Interests in Share Capital**

At 30th September, 2002, the interests of the directors and their 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") of the Company were as follows:

| Name of director | Type of interest | Number of shares held |
|-----------------------------|-------------------------------|------------------------------|
| Dr. Li Zhong Yuan | Corporate (<i>Note (a)</i>) | 2,629,400,000 |
| | Personal | 927,000,000 |
| Mr. Wong Chong Kwong, Derek | Corporate (<i>Note (a)</i>) | 2,629,400,000 |
| | Family (<i>Note (b)</i>) | 339,000,000 |
| Mr. Lam Yat Keung | Personal | 3,200,000 |
| | Family (<i>Note (c)</i>) | 412,500,000 |

Notes:

- (a) These shares are held by Pacific Annex Capital Limited which is beneficially owned by Dr. Li Zhong Yuan and Mr. Wong Chong Kwong, Derek.
- (b) Included in the family interest of Mr. Wong Chong Kwong, Derek is 90,000,000 shares held by his wife Ms. Wong Kit Wai, Peggy.
- (c) These shares are held by Ms. Lam Pik Wah, the wife of Mr. Lam Yat Keung, personally and a company controlled by her.

Save as disclosed above, as at 30th September, 2002, none of the directors of the Company, or their associates had any personal, family, corporate or other interest in the share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance.



ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES *(Continued)*

Substantial Shareholders

At 30th September, 2002, the following individuals had an interest of 10% or more of the share capital of the Company as recorded in the register of interest in shares required to be kept by the Company pursuant Section 16(1) of the SDI Ordinance.

| Name | Number of shares held | Percentage of issued shares |
|-------------------------------|-----------------------|-----------------------------|
| Pacific Annex Capital Limited | 2,629,400,000 | 19.87% |

Save as disclosed above, no person, other than the director, Dr. Li Zhong Yuan and Mr. Wong Chong Kwong, Derek, whose interests are set out under the section headed the "Directors' interests in share capital" 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.

Share Option Schemes

The Company adopted a share option scheme (the "Old Scheme") pursuant to a resolution passed on 16th May, 2001 for the primary purpose of providing incentives to directors and eligible employees, and which will expire ten years after the date of adoption. Under the Old Scheme, the board of directors of the Company may grant options to any directors or full time employees of the Company and its subsidiaries to subscribe for shares in the Company at a price not less than 80% of the average of the closing prices of the Company's shares for the 5 trading days immediately preceding the date on which an option is offered to an employee or the nominal value of the shares, whichever is the higher. The maximum number of shares in respect of which options shall be granted under the Old Scheme may not exceed 10% of the issued share capital of the Company from time to time. No employee shall be granted options which would enable him or her to subscribe for an aggregate of more than 1% of the aggregate number of shares under the Old Scheme.

The consideration of HK\$1.00 is payable on the grant of an option. Options may be exercised at any time from the date of grant of the share option to the 10 anniversary of the date of grant of the option or of the adoption date of the Old Scheme, which is the earlier.

Pursuant to an ordinary resolution of the Company passed on 8th April, 2002, a new share option scheme (the "New Scheme") was adopted to replace the Old Scheme. The terms of the New Scheme are the same as those of the Old Scheme except that under the New Scheme, the board of the directors may grant option to non-employee to subscribe for shares in the Company at (i) the closing price of the Company's shares on the date on which an option is offered to a participant ("Offer Date"); (ii) the average of the closing price of the Company's shares for the 5 trading days immediately preceding the Offer Date; and (iii) the nominal value of the Company's shares, whichever is the highest.

**ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES** (Continued)**Share Option Schemes** (Continued)

The following table discloses details of options outstanding under the Company's share option schemes and movements during the period:

| | Option type | Outstanding at 1.4.2002 | Granted | Exercised | Lapsed | Outstanding at 30.9.2002 |
|----------------------------|-------------|-------------------------|----------------------|------------------------|--------------------|--------------------------|
| <i>Directors</i> | | | | | | |
| Li Zhong Yuan | A | 5,000,000 | - | - | - | 5,000,000 |
| Wong Chong Kwong, Derek | A | 95,000,000 | - | - | - | 95,000,000 |
| <i>Total Directors</i> | | <u>100,000,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>100,000,000</u> |
| <i>Employees</i> | | | | | | |
| | A | 120,000,000 | - | - | - | 120,000,000 |
| | B | 6,000,000 | - | - | (6,000,000) | - |
| | C | - | 200,000,000 | (200,000,000) | - | - |
| <i>Total Employees</i> | | <u>126,000,000</u> | <u>200,000,000</u> | <u>(200,000,000)</u> | <u>(6,000,000)</u> | <u>120,000,000</u> |
| <i>Others</i> | C | - | 800,000,000 | (800,000,000) | - | - |
| <i>Total</i> | | <u>226,000,000</u> | <u>1,000,000,000</u> | <u>(1,000,000,000)</u> | <u>(6,000,000)</u> | <u>220,000,000</u> |

| Option type | Date of grant | Exercisable period From | To | Exercise price HK\$ | Closing price immediately before the date of grant HK\$ |
|-------------|--------------------|-------------------------|--------------------|---------------------|---|
| A | 31st August, 2001 | 31st August, 2001 | 30th August, 2011 | 0.043 | 0.060 |
| B | 11th October, 2001 | 11th October, 2001 | 10th October, 2011 | 0.052 | 0.052 |
| C | 10th April, 2002 | 10th April, 2002 | 9th April, 2012 | 0.051 | 0.050 |

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK\$0.050 for options with an exercise price of HK\$0.051.

ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES *(Continued)***Share Option Schemes** *(Continued)*

The fair value of the options granted in the current period measured as at 10th April, 2002, the date of grant, totalled approximately HK\$45,231,257. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

1. an expected volatility of 103.3%;
2. No annual dividends;
3. Hong Kong Exchange Fund Notes rates of 6%; and
4. An expected life of 9.3 years to 10 years.

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

No charge is recognised in the income statement in respect of the value of options granted in the period.

Directors' Rights to Acquire Shares or Debentures

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

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.



ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES *(Continued)*

Code of Best Practice

Pursuant to the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange, Honko, the former holding company of the Group prior to the group reorganisation and financial restructuring, had in place an audit committee which comprised two former independent non-executive directors of Honko, up to 14th June, 2001.

On 30th November, 2001, the Company set up its own audit committee, which comprises two existing independent non-executive directors of the Company to perform its duties.

In the opinion of the directors of the Company, other than the non-existence of an audit committee during the period from 18th June, 2001 to 29th November, 2001, the Company has complied throughout the period between its listing date and 30th September, 2002 with the rest of the Code of Best Practice.

Disclosure under Practice note 19 of the Listing Rules

Up to the date of this report, Pacific Annex Capital Limited, Dr. Li Zhong Yuan and Mr. Wong Chong Kwong, Derek pledged an aggregate of 1,666,000,000, 382,000,000 and 325,000,000 Existing Shares (equivalent to an aggregate of 8,330,000, 1,910,000 and 1,625,000 Consolidated Shares) to independent third parties for short-term financing. The pledged shares represent approximately 11.08%, 2.54% and 2.16% of the total issued share capital of the Company as at date of this report respectively.

Publication of Interim Report

The 2002 interim report of the Company containing all the information required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

On behalf of the Board
Dr. Li Zhong Yuan
Chairman

Hong Kong, 4th November, 2002