



# CHINA SCI-TECH HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

*Interim Report* **2002**

## UNAUDITED INTERIM RESULTS

The Board of Directors (the “Board”) of China Sci-Tech Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2002 with the comparative figures for the corresponding period in 2001 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002 – Unaudited

	Notes	Six months ended 30 September	
		2002 HK\$'000	2001 HK\$'000
Turnover	2	342	238
Other operating income		–	43
Write back of (Allowance for) impairment in value of investments in securities		302	(10,889)
Administrative expenses and other operating expenses		(5,227)	(2,161)
Loss from operations	3	(4,583)	(12,769)
Gain on disposal of an associate	4	38,442	–
Finance costs	5	(10,308)	(14,234)
Share of results of an associate		(44,603)	(152,258)
Loss before taxation		(21,052)	(179,261)
Taxation	6	–	(11)
Net loss for the period		(21,052)	(179,272)
Loss per share – basic	7	(HK0.36 cent)	(HK3.09 cents)

**CONDENSED CONSOLIDATED BALANCE SHEET**

AT 30 SEPTEMBER 2002

	<i>Note</i>	<b>30 September 2002 HK\$'000 (Unaudited)</b>	31 March 2002 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	267	55
Land held for development		60,000	60,000
Interest in an associate		–	271,477
		<b>60,267</b>	331,532
Current assets			
Other receivables		65,594	28,703
Amount due from an associate		–	35
Taxation recoverable		3	3
Investments in securities		34,316	3,366
Bank balances and cash		2,780	64
		<b>102,693</b>	32,171
Current liabilities			
Other payables		6,783	20,558
Amount due to a director		756	756
Borrowings due within one year		–	19,560
		<b>7,539</b>	40,874
Net current assets (liabilities)		<b>95,154</b>	(8,703)
Total assets less current liabilities		<b>155,421</b>	322,829
Non-current liabilities			
Amount due to a related company		5,438	5,248
Borrowings due after one year		–	167,450
		<b>5,438</b>	172,698
Net assets		<b>149,983</b>	150,131
Capital and reserves			
Share capital		58,068	58,068
Reserves		91,915	92,063
Shareholders' funds		<b>149,983</b>	150,131

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002 – Unaudited

	Share capital	Share premium	Capital reserve	Other capital reserve	Warrant reserve	Asset revaluation reserve	Translation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2001	580,677	738,558	7,700	-	31,010	(49,763)	66	(818,708)	489,540
Share premium set off against accumulated losses	-	(738,558)	-	-	-	-	-	738,558	-
Share of reserves of an associate not recognised in income statement	-	-	-	-	-	(21,780)	(159)	10,728	(11,211)
Net loss for the period	-	-	-	-	-	-	-	(179,272)	(179,272)
<b>Balance at 30 September 2001 and 1 October 2001</b>	<b>580,677</b>	<b>-</b>	<b>7,700</b>	<b>-</b>	<b>31,010</b>	<b>(71,543)</b>	<b>(93)</b>	<b>(248,694)</b>	<b>299,057</b>
Share of reserves of an associate not recognised in income statement	-	-	-	-	-	19,766	(44)	-	19,722
Arising from capital reduction	(522,609)	-	-	396,347	-	-	-	126,262	-
Net loss for the period	-	-	-	-	-	-	-	(168,648)	(168,648)
<b>Balance at 1 April 2002</b>	<b>58,068</b>	<b>-</b>	<b>7,700</b>	<b>396,347</b>	<b>31,010</b>	<b>(51,777)</b>	<b>(137)</b>	<b>(291,080)</b>	<b>150,131</b>
Share of reserve of an associate not recognised in income statement	-	-	-	-	-	(9,835)	-	-	(9,835)
Eliminated upon disposal of an associate	-	-	-	-	(31,010)	61,612	137	-	30,739
Net loss for the period	-	-	-	-	-	-	-	(21,052)	(21,052)
<b>Balance at 30 September 2002</b>	<b>58,068</b>	<b>-</b>	<b>7,700</b>	<b>396,347</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(312,132)</b>	<b>149,983</b>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002 – Unaudited*

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Net cash used in operating activities	<b>(28,814)</b>	(7,445)
Net cash from investing activities	<b>218,350</b>	5,904
Net cash used in financing activities	<b>(186,820)</b>	(1,500)
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	<b>2,716</b>	(3,041)
Cash and cash equivalents at the beginning of the period	<b>64</b>	13,785
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<b>2,780</b>	10,744
	<hr/>	<hr/>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>2,780</b>	10,744
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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002

### 1. ACCOUNTING POLICIES

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

The interim financial report has been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”).

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual audited financial statements for the year ended 31 March 2002 except as disclosed below.

In the current period, the Group has adopted, for the first time, the following new and revised SSAPs issued by the HKSA:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest, dividends and taxation, which were previously presented under a separate heading, are classified as operating cash flows. The other new and revised SSAPs have introduced revised disclosure requirements which have been adopted in the condensed financial statements. The adoption of the above SSAPs has had no effect on the results for the current or prior accounting periods.

### 2. SEGMENT INFORMATION

No analysis of revenue and results by segment is presented as the Group is solely engaged in one business segment, corporate and strategic investment holding and operates in Hong Kong.

## 3. LOSS FROM OPERATIONS

	(Unaudited)	
	Six months ended	
	30 September	
	2002	2001
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Depreciation	10	10
Gain on disposal on investments in securities	–	(43)
	<u>10</u>	<u>(43)</u>

## 4. GAIN ON DISPOSAL OF AN ASSOCIATE

During the period, the Group disposed of its interest in an associate through disposal of the entire share capital of a wholly owned subsidiary to an independent third party. The gain on disposal is computed as follows:

	HK\$'000
Net assets disposed of	217,391
Reserves attributable to the Group and released upon disposal	<u>30,739</u>
	248,130
Gain on disposal of an associate	<u>38,442</u>
Cash consideration received	<u>286,572</u>

## 5. FINANCE COSTS

	(Unaudited)	
	Six months ended	
	30 September	
	2002	2001
	HK\$'000	HK\$'000
Interest on borrowings wholly repayable within five years:		
Other loans	(10,119)	(14,045)
Amount due to a related company	(189)	(189)
	<u>(10,308)</u>	<u>(14,234)</u>

## 6. TAXATION

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit for the period.

The amount in the preceding period represented share of taxation attributable to an associate.

## 7. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the period of approximately HK\$21,052,000 (2001: HK\$179,272,000) and on the 5,806,770,004 (2001: 5,806,770,004) shares in issue during the period.

No diluted loss per share for both periods are presented as the effect of the potential ordinary shares outstanding in respect of the share options was anti-dilutive and the exercise price of the Company's warrants outstanding was higher than the average fair value of the Company's shares during both periods.

## 8. INTERIM DIVIDEND

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30 September 2002 (2001: Nil).



## 9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment at a cost of approximately HK\$222,000 (2001: HK\$Nil).

## 10. PENDING LITIGATION

- (a) The Company issued a post-dated cheque dated 15 October 1998 for HK\$23,636,122 (the "Cheque") to a third party (the "Third Party") on behalf of former associate of the Company. On 28 December 1998, the Third Party presented the Cheque for payment, but it was countermanded by the Company. On 30 January 1999, a writ of summons was issued by the Third Party against the Company, claiming for a sum of HK\$23,636,122 and accrued interest thereon. The Company filed a defence on 8 March 1999. The Company successfully resisted the Third Party's application for summary judgement against the Company and the Court granted the Company conditional leave to defend itself on 22 July 1999. The Company complied with the order of the Court and paid a sum of HK\$26,139,446 to the Court on 5 August 1999 (included in this interim financial report in the balance of other receivables as at 30 September 2002 and 31 March 2002).

On 10 April 2002, the Court made a judgement in favour of the Third Party and the Company was ordered to pay to the Third Party the sum of HK\$23,636,122 and the accrued interest thereon at the rate of 5% per annum over the best lending rate quoted by a bank in Hong Kong for the period from 28 December 1998 to 10 April 2002 and thereafter at judgement rate until full payment (the "Judgement"). As at 10 April 2002, the interest accrued thereon amounted to approximately HK\$10 million in aggregate. On 24 May 2002, the Company lodged an appeal against the Judgement to the Court of Appeal of the High Court, which will be heard on 28 February 2003. Notwithstanding the above, on 26 July 2002, the Court of Appeal ordered the Third Party is entitled to obtain the sum of HK\$26,139,446, being the amount paid to the Court by the Company on 5 August 1999, out from the High Court pursuant to the Judgement.

In relation to the foregoing legal proceedings, pursuant to a deed of undertaking and indemnity dated 26 July 1999 (the "Deed") and executed by Mr. Chiu Tao ("Mr. Chiu"), a director of the Company who became the Chairman of the Company on 12 June 2002, Mr. Chiu has undertaken to fully indemnify the Company against all losses, liabilities, damages, costs and expenses (save legal costs and expenses only) suffered or incurred by the Company as a result of or in connection with the claims.

**10. PENDING LITIGATION** *(Continued)*

Having taken legal counsel's advice, the directors of the Company consider that the Company has proper and valid grounds for the appeal against the Judgement and that the Deed is legally binding and enforceable. Accordingly, the directors of the Company consider that no provision for the claim is necessary.

- (b) On 1 September 1999, a former officer of the Company entered into a supply contract with an independent third party (the "Supplier") for the supply of 20,000 cable modems for a total consideration of US\$6,000,000 (approximately HK\$46,560,000), purportedly on behalf of the Company. On 8 September 1999, the Company announced that the supply contract was entered into without being properly authorised by the Company and, therefore, disputed the validity of the contract. On the same day, the Company issued a legal letter to the Supplier confirming that the Company would not recognise the supply contract and it should not be binding on the Company. The Supplier is claiming damages of a sum of US\$3.6 million (approximately HK\$28 million) in respect of the Group fails to take delivery of the cable modems.

Having considered legal counsel's advice, the directors of the Company believe that the Group has a favourable defence against the claim. Accordingly, the directors of the Company consider that no provision for the claim is necessary.

- (c) On 6 December 1999, Mr. Yeung Kang Lam ("Mr. Yeung"), who was appointed and subsequently resigned as a director of the Company during the year ended 31 March 2000, filed a High Court proceeding against the Company for a sum of HK\$932,958 and damages, interest and costs arising from the termination of an alleged employment letter which was signed between Mr. Yeung and Mr. Chiu. The directors of the Company consider that since no board meeting was ever called to approve the alleged employment letter of Mr. Yeung and the alleged remuneration relating thereto, the Company disputes the validity of the alleged employment letter. On 23 February 2000, the Company filed its defence against the claim.

**10. PENDING LITIGATION** *(Continued)*

Having considered legal counsel's advice, the directors of the Company believe that the Company has a favourable defence to the allegation. Accordingly, the directors of the Company consider that no provision for the claim alleged by Mr. Yeung is necessary.

**11. RELATED PARTY TRANSACTIONS**

During the period, the Group entered into the following transactions with related parties:

	(Unaudited)	
	Six months ended	
	30 September	
	2002	2001
	HK\$'000	HK\$'000
Interest expenses payable to a related company	189	189
Reimbursement of expenses from a former associate	<u>2,500</u>	<u>3,000</u>

The above transactions were carried out after negotiations between the Group and the related parties with reference to the estimated market rates and actual costs incurred.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group's turnover for the six months ended 30 September 2002 was HK\$342,000 representing approximately 43.70% increase as compared to the corresponding period in year 2001. Profit before share of loss of an associate (after tax) for the six months ended 30 September 2002 amounted to HK\$23,551,000 as compared with a loss of HK\$27,014,000 for the corresponding period in year 2001. Share of loss of an associate (after tax) for the six months ended 30 September 2002 amounted to HK\$44,603,000 as compared with a loss of HK\$152,269,000 for the corresponding period in year 2001. Overall, net loss for the six months ended 30 September 2002 was HK\$21,052,000 as compared to the net loss of HK\$179,272,000 for the corresponding period in 2001. As at 30 September 2002, the Group had cash and bank balances of approximately HK\$2,780,000 with no borrowings. During the period, the Group's net assets decreased from HK\$150,131,000 as at 31 March 2002 to HK\$149,983,000 as at 30 September 2002.

Employee's cost (excluding director's emoluments) amounted to approximately HK\$664,000 for the six months ended 30 September 2002. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

The land development project in Jiangsu Province of the People's Republic of China commenced its phased construction stage. Some major reinforced construction structure had been completed during the period.

During the period, the Group disposed 3,185,740,000 shares in China Online (Bermuda) Limited ("China Online") representing approximately 34.31% of the issued share capital of China Online, which was its entire investment in China Online, through various means including market disposal, private placing, donation and a conditional sale and purchase agreement. Substantial portion of the China Online shares was disposed through a conditional sale and purchase agreement which the Group entered into on 29 April 2002 (the "S&P Agreement"). The S&P Agreement was subsequently amended by various supplemental agreements to realize 2,631,200,000 shares in China Online representing approximately 28.33% of the issued share capital of China Online, through the disposal of its wholly owned subsidiary, Vigor Online Offshore Limited, to an independent third party for a final consideration of HK\$263,120,000 in cash. As the conditions precedent contained in the S&P Agreement were fulfilled, the sale was completed on 23 August 2002. Details were disclosed in the Company's past relevant announcements.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The proceeds from the realization of the Group's long-term investment in China Online were mainly applied to repay its borrowings. As at 30 September 2002, the Group had no borrowings.

Subsequent to the realization of the Group's long-term investment in China Online, the Group has paid off its borrowings. This enables the Group to concentrate its resources on strengthening and developing its business. The Group, then, can have more flexibility in seeking other potential investment opportunities.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

At 30 September 2002, the interests of the directors and chief executive in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interest) Ordinance (the "SDI Ordinance")), as recorded in the register required to be kept by the Company under section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of director	Type of interest	Number of shares
Mr. Chiu Tao	Corporate (Note)	141,382,000

Note: These shares are held by New Excellence Holdings Limited in which Mr. Chiu Tao maintains a beneficial interest of 65%.

Save as disclosed above, none of the directors and chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations (as defined in the SDI Ordinance).

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As at 30 September 2002, the following director had the following interests in options which carry rights to subscribe for shares in the Company at the following exercise price:

Name of director	Number of share options outstanding at 30 September 2002	Date of granting of share options *	Exercise price **	Exercise period
Mr. Chiu Tao	13,050,000	23 April 1999	HK\$0.10	23 April 2000 to 22 April 2003

\* *The vesting period of the share options is from the date of the grant until the commencement of the exercise period.*

\*\* *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors, their respective spouses, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of shares held	Percentage of holding
Dr. Ho Hung Sun, Stanley	935,750,000	16%

Save as disclosed above, no person registered an interest in the share capital of the Company during the period that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

## CODE OF THE BEST PRACTICE

The independent non-executive directors are not appointed for a specific term, but are subject to retirement by rotation at the Company's annual general meeting, as specified by the Company's articles of association. In the opinion of the directors, this meets the same objective as the Code of Best Practice set out in the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Save as aforesaid, none of the directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

## 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 securities during the period.

## REVIEW BY AUDIT COMMITTEE

The 2002 interim report has been reviewed by the Company's auditors, Deloitte, Touche & Tohmatsu and by the Company's audit committee.

By order of the Board  
**Kwan Kam Hung, Jimmy**  
*Director*

Hong Kong, 30 December 2002

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**Deloitte  
Touche  
Tohmatsu**

**INDEPENDENT REVIEW REPORT**

To the Board of Directors of  
**CHINA SCI-TECH HOLDINGS LIMITED**

**Introduction**

We have been instructed by China Sci-Tech Holdings Limited (the “Company”) to review the interim financial report set out on pages 1 to 10.

**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 Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants and the relevant provisions thereof. 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 the 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 management of the Company and its subsidiaries 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 disclosures made in the interim financial report concerning an appeal filed by the Company against a court judgement which ordered the Company to pay a sum of HK\$23.6 million and accrued interest thereon to a third party who brought claims against the Company commencing in January 1999 (the "Judgement"). Although the directors of the Company, after consultation with its legal advisors, are of the view that the Company has proper and valid grounds for the appeal against the Judgement, the possible outcome of such appeal cannot be determined as at the date of this report.

In preparing the interim financial report, no provision for any loss in respect of the claims or the Judgement has been made. In addition in relation to the claim, a deed of undertaking and indemnity dated 26 July 1999 (the "Deed") has been executed by Mr. Chiu Tao ("Mr. Chiu"), the Chairman of the Company. Pursuant to the Deed, Mr. Chiu has undertaken to fully indemnify the Company against all losses, liabilities, damages, costs and expenses (except legal costs and expenses only) suffered or incurred by the Company as a result of, or in connection with the claims. Details of the circumstances relating to this fundamental uncertainty are described in note 10 to the interim financial report. Any provisions or adjustments that might have been necessary would have a consequential impact on the Group's net assets as at 30 September 2002 and its losses for the six month period then ended.

**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 September 2002.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong, 30th December 2002