

For the year ended 31st March, 2003

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability. Pursuant to a scheme of arrangement under Section 99 of the Companies Act (1981) of Bermuda (the "Scheme"), the Company became the holding company of Honko on 18th June, 2001. On the same date, the Company's shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in place of the shares of Honko ("Honko Shares").

The Company acts as an investment holding company. The principal activities of its subsidiaries are manufacturing, sourcing and distribution of electronic parts and components, and investment holdings.

2. GROUP REORGANISATION AND FINANCIAL RESTRUCTURING

On 9th April, 2001, Honko put forward a restructuring proposal pursuant to which the Company issued shares for cash and restructured all its indebtedness as stipulated in a subscription agreement (the "Subscription Agreement") and two compromise agreements (the "Compromise Agreements") that were entered into on 18th January, 2001. The Subscription Agreement was entered into by Honko, the Company, an independent investor (the "Investor"), Kingsway SW Securities Limited ("Kingsway") and Mr. Lam Yat Keung, a director of Honko. The Compromise Agreements were entered into by Honko, the Company, the Investor, Kingsway and the borrowing banks, finance leases creditors and certain other creditors of Honko Group.

On 14th June, 2001, upon the approval of the independent shareholders of Honko and the fulfilment of the other conditions as set out in the Subscription Agreement and the Compromise Agreements, the Group underwent the Financial Restructuring, which comprised the following principal parts:

- (a) the Scheme was approved by a majority in number of the shareholders, representing three-fourths in value of the shareholders voting in person or by proxy of Honko at a meeting convened at the direction of the High Court of the Hong Kong Special Administrative Region of the People's Republic of China (the "Court") on 2nd May, 2001;
- (b) the Scheme was sanctioned by the Court on 17th May, 2001. A copy of the order of the Court as required by Section 166 of the Companies Ordinance was delivered to the Registrar of Companies in Hong Kong for registration;
- (c) all of the Honko Shares as at 14th June, 2001 (except for 1,000,000 Honko Shares subscribed at par by the Company as part of the Scheme on 16th May, 2001) were cancelled and extinguished by way of a reduction of share capital, and swapped with the ordinary shares of HK\$0.005 each of the Company ("TechCap Shares") on a one-for-one basis, resulting in the issue of 358 million TechCap Shares;

For the year ended 31st March, 2003

2. GROUP REORGANISATION AND FINANCIAL RESTRUCTURING *(continued)*

- (d) simultaneously, a provisional allotment of 1,432 million TechCap Shares, whereby the shareholders of Honko were entitled to be allotted four TechCap Shares for every existing Honko Share held as at 14th June, 2001 at an allotment price of HK\$0.02 per share, resulting in cash proceeds of HK\$28.6 million;
- (e) the subscription of 2,800 million TechCap Shares by the Investor and of another 1,000 million TechCap Shares by subscribers procured by Kingsway at a subscription price of HK\$0.01 each, resulting in cash proceeds of HK\$38 million;
- (f) the repayment of HK\$28.7 million of the Honko Group's bank borrowings in the form of HK\$26 million cash and of 181 million TechCap Shares at a price of HK\$0.015 per share (HK\$2.7 million in aggregate), and the waiver of the remaining bank borrowings of HK\$137 million;
- (g) the repayment of HK\$3.57 million of the Honko Group's financial lease creditors in the form of HK\$3.4 million cash and 34 million TechCap Shares at a price of HK\$0.005 per share (HK\$170,000 in aggregate), the refinancing of HK\$13.6 million and the waiver of the remaining finance lease creditors of HK\$15.6 million;
- (h) the repayment of HK\$14.42 million of loans from directors in the form of 700 million TechCap Shares at a price of HK\$0.02 per share (HK\$14 million in aggregate) and of 84 million TechCap Shares at a price of HK\$0.005 per share (HK\$420,000 in aggregate), and the waiver of the remaining directors' loans of HK\$41.6 million;
- (i) the repayment of HK\$10 million of amounts due to the Honko Group's management creditors in the form of 417 million TechCap Shares at a price of HK\$0.024 per share (HK\$10 million in aggregate);
- (j) the repayment of HK\$6.95 million of an amount due to a related company in the form of 287.5 million TechCap Shares at a price of HK\$0.024 per share (HK\$6.9 million in aggregate), and the waiver of the remaining HK\$50,000 due to the related company;
- (k) the subscription of Convertible Notes (note 31) by subscribers procured by Kingsway of HK\$25 million;
- (l) the Listing Committee of the Stock Exchange granted the listing of, and permission to deal in, TechCap Shares on 14th June, 2001; and
- (m) the listing of the Honko Shares on the Stock Exchange was withdrawn on 15th June, 2001 and TechCap Shares were listed on the Stock Exchange by way of introduction on 18th June, 2001.

For the year ended 31st March, 2003

2. GROUP REORGANISATION AND FINANCIAL RESTRUCTURING *(continued)*

The Company, Honko and its subsidiaries resulting from the Financial Restructuring is regarded as a continuing entity under Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society Accountants. Accordingly the consolidated financial statements have been prepared on a merger basis.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared on a going concern basis because, Pacific Annex Capital Limited, the Company's major shareholder has agreed to provide adequate funds to enable the Company to meet in full its financial obligations as they fall due in the foreseeable future.

4. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the introduction of the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Cash flow statements

Under SSAP 15 (Revised) "Cash flow statements", cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interest paid, interest received and dividends, which were previously presented under a separate heading, are classified as operating and investing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Employee benefits

SSAP 34 "Employee benefits" introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes and equity compensation benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements. Disclosure of the contribution to retirement benefit schemes and the information of the share option schemes of the Group have been presented so as to comply with the new requirement of SSAP 34.

For the year ended 31st March, 2003

5. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and the principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Goodwill

Goodwill arising on consolidation, which represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition, is capitalised and amortised on a straight line basis over its useful economic life and is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisitions of subsidiaries on or after 1st April, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

On disposal of a subsidiary, the attributable amount of unamortised negative goodwill/goodwill previously credited to reserves is included in the determination of the profit or loss on disposal.

For the year ended 31st March, 2003

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Trading of securities are recognised when the relevant transaction is executed.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation and any identified impairment losses.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is included in net profit or loss for the year.

Depreciation and amortisation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold improvements	20%
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Motor vehicles	30%

For the year ended 31st March, 2003

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

For the year ended 31st March, 2003

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are translated at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates of exchange prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in net profit or loss for the year.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

For the year ended 31st March, 2003

6. SEGMENTAL INFORMATION

For management purposes, 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.

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

BUSINESS SEGMENTS

Income statement

For the year ended 31st March, 2003

	Manufacturing of electronic parts and components <i>HK\$'000</i>	Sourcing and distribution of electronic parts and components <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue	<u>230,168</u>	<u>15,205</u>	<u>–</u>	<u>245,373</u>
Segment results	<u>(5,437)</u>	<u>(2,110)</u>	<u>(31,329)</u>	(38,876)
Other operating income				4,356
Unallocated corporate expenses				<u>(25,045)</u>
Loss from operations				(59,565)
Finance costs				<u>(3,815)</u>
Loss before taxation				(63,380)
Taxation				<u>–</u>
Loss for the year				<u>(63,380)</u>

For the year ended 31st March, 2003

6. SEGMENTAL INFORMATION *(continued)*

BUSINESS SEGMENTS *(continued)*

Income statement *(continued)*

For the year ended 31st March, 2002

	Manufacturing of electronic parts and components <i>HK\$'000</i>	Sourcing and distribution of electronic parts and components <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue	<u>182,413</u>	<u>7,231</u>	<u>–</u>	<u>189,644</u>
Segment results	<u>(7,072)</u>	<u>(1,548)</u>	<u>(1,358)</u>	(9,978)
Other operating income				2,385
Unallocated corporate expenses				<u>(23,490)</u>
Loss from operations				(31,083)
Gain on financial restructuring net of expenses				158,159
Finance costs				<u>(17,444)</u>
Profit before taxation				109,632
Taxation				<u>1,007</u>
Profit for the year				<u><u>110,639</u></u>

For the year ended 31st March, 2003

6. SEGMENTAL INFORMATION (continued)

BUSINESS SEGMENTS (continued)

Balance sheet

At 31st March, 2003

	Manufacturing of electronic parts and components <i>HK\$'000</i>	Sourcing and distribution of electronic parts and components <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS				
Segment assets	77,806	4,357	53,526	135,689
Unallocated corporate assets				<u>55,415</u>
Consolidated total assets				<u><u>191,104</u></u>
LIABILITIES				
Segment liabilities	78,264	5,672	8,000	91,936
Unallocated corporate liabilities				<u>39,168</u>
Consolidated total liabilities				<u><u>131,104</u></u>

For the year ended 31st March, 2003

6. SEGMENTAL INFORMATION (continued)

BUSINESS SEGMENTS (continued)

Balance sheet (continued)

At 31st March, 2002

	Manufacturing of electronic parts and components <i>HK\$'000</i>	Sourcing and distribution of electronic parts and components <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS				
Segment assets	65,875	2,912	51,134	119,921
Unallocated corporate assets				47,247
				<hr/>
Consolidated total assets				<u>167,168</u>
LIABILITIES				
Segment liabilities	59,080	2,791	–	61,871
Unallocated corporate liabilities				63,705
				<hr/>
Consolidated total liabilities				<u>125,576</u>

For the year ended 31st March, 2003

6. SEGMENTAL INFORMATION (continued)

BUSINESS SEGMENTS (continued)

Other information

For the year ended 31st March, 2003

	Manufacturing of electronic parts and components HK\$'000	Sourcing and distribution of electronic parts and components HK\$'000	Investment holding HK\$'000	Unallocated corporate assets HK\$'000	Consolidated HK\$'000
Additions of property, plant and equipment	83	-	-	107	190
Allowance for loan receivables	-	-	18,829	-	18,829
Depreciation	708	-	-	2,367	3,075
Impairment loss recognised in respect of investments in securities	-	-	7,500	-	7,500
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

For the year ended 31st March, 2002

Additions of property, plant and equipment	489	-	-	8,154	8,643
Depreciation	2,707	-	-	2,372	5,079
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

For the year ended 31st March, 2003

6. SEGMENTAL INFORMATION *(continued)*

GEOGRAPHICAL SEGMENTS

The following table provides an analysis of the Group's turnover by geographical markets, irrespective of the origin of the goods:

	Turnover		Contribution to (loss) profit before taxation	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Hong Kong	202,024	151,583	(62,931)	111,170
Other Asian countries	31,704	23,608	(297)	(954)
United States of America	5,221	7,573	(68)	(306)
Europe and others	6,424	6,880	(84)	(278)
	<u>245,373</u>	<u>189,644</u>	<u>(63,380)</u>	<u>109,632</u>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical areas in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
PRC	53,085	55,391	83	489
Hong Kong	78,707	62,153	107	8,154
Other Asian countries	2,799	2,004	-	-
United States of America	493	337	-	-
Europe and others	605	36	-	-
	<u>135,689</u>	<u>119,921</u>	<u>190</u>	<u>8,643</u>

For the year ended 31st March, 2003

7. OTHER OPERATING INCOME

	2003 HK\$'000	2002 HK\$'000
Dividend income – listed shares	–	1
Gain on disposal of investment in securities	38	–
Interest income on bank deposits and loans receivables	1,455	2,321
Allowance for doubtful debts written back	577	–
Other income	2,286	63
	<u>4,356</u>	<u>2,385</u>

8. LOSS FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Loss from operations has been arrived at after charging:		
Auditors' remuneration		
Current year	760	800
Underprovision in prior years	60	71
Depreciation		
Owned assets	1,896	2,513
Assets held under finance leases	1,179	2,566
	<u>3,075</u>	<u>5,079</u>
Loss on disposal of investment in securities	–	463
Loss on disposal of property, plant and equipment	344	253
Minimum lease payments in respect of:		
Land and buildings	4,136	4,313
Motor vehicles	276	276
Plant and machinery	1,350	1,800
Staff costs:		
Staff costs (including directors' emoluments)	37,376	36,768
Contributions to retirement benefit scheme	450	456
	<u>37,826</u>	<u>37,224</u>
Unrealised holding loss on investment in securities	<u>–</u>	<u>896</u>

For the year ended 31st March, 2003

9. FINANCE COSTS

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank loans and overdrafts	38	3,265
Bonds	34	2,743
Convertible bonds	61	–
Convertible notes	–	424
Obligations under finance leases	511	680
Other borrowings wholly repayable within five years	488	564
Premium on redemption of bonds	2,683	4,368
	3,815	12,044
Financial restructuring cost	–	5,400
	3,815	17,444

For the year ended 31st March, 2003

10. DIRECTORS' EMOLUMENTS

	2003	2002
	HK\$'000	HK\$'000
Directors' fees	–	645
Other emoluments		
Salaries and other benefits	6,924	10,898
Contributions to retirement benefit scheme	37	73
	<u>6,961</u>	<u>11,616</u>

No directors' fees is payable to independent non-executive directors in both years.

During the year ended 31st March, 2002, a director waived emolument of HK\$150,000. No director waived any emoluments in the year ended 31st March, 2003.

The emoluments of the directors were within the following bands:

	2003	2002
	Number of directors	Number of directors
Nil – HK\$1,000,000	6	12
HK\$1,000,001 – HK\$1,500,000	2	1
HK\$1,500,001 – HK\$2,000,000	2	3
HK\$2,500,001 – HK\$3,000,000	–	1
	<u>10</u>	<u>17</u>

For the year ended 31st March, 2003

11. EMPLOYEES' EMOLUMENTS

Of the five highest paid employees in the Group, four (2002: five) were directors of the Company whose emoluments are included in note 10 above. The emoluments of the remaining individual in 2003 were as follows:

	2003	2002
	HK\$'000	HK\$'000
Salaries and other benefits	960	–
Contributions to retirement benefit scheme	12	–
	<u> </u>	<u> </u>
	972	–
	<u> </u>	<u> </u>

12. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no assessable profit for the year.

No tax is payable on the profit for the prior year arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

The taxation credit for last year represented the overprovision of Hong Kong Profits Tax in previous years.

Details of potential deferred taxation not provided for in the year are set out in note 33.

For the year ended 31st March, 2003

13. (LOSS) EARNINGS PER SHARE

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

	2003	2002
	HK\$'000	HK\$'000
(Loss) profit for the year and (loss) earnings for the purposes of basic (loss) earnings per share	(63,380)	110,639
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds and notes	—	424
(Loss) earnings for the purposes of diluted (loss) earnings per share	<u>(63,380)</u>	<u>111,063</u>
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share (note)	71,926,360	36,216,508
Effect of dilutive potential ordinary shares:		
Options	—	631,736
Convertible notes	—	3,652,740
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	<u>71,926,360</u>	<u>40,500,984</u>

The computation of diluted loss per share for the year ended 31st March, 2003 does not assume the exercise of the Company's outstanding options and convertible bonds and notes as their exercise would result in a decrease in the net loss per share.

Note: The weighted average numbers of ordinary shares for the purpose of basic and diluted earnings per share for the year ended 31st March, 2002 have been adjusted for the effect of the cancellation and consolidation of the shares of the Company during the year ended 31st March, 2003, details of which are set out in note 28.

For the year ended 31st March, 2003

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP					
COST					
At 1st April, 2002	9,347	117,736	7,587	7,020	141,690
Additions	39	–	151	–	190
Disposals	–	(66,532)	(25)	(2,205)	(68,762)
At 31st March, 2003	9,386	51,204	7,713	4,815	73,118
DEPRECIATION					
At 1st April, 2002	6,625	117,103	7,056	2,181	132,965
Provided for the year	1,014	159	447	1,455	3,075
Eliminated on disposals	–	(66,482)	(14)	(636)	(67,132)
At 31st March, 2003	7,639	50,780	7,489	3,000	68,908
NET BOOK VALUE					
At 31st March, 2003	1,747	424	224	1,815	4,210
At 31st March, 2002	2,722	633	531	4,839	8,725

For the year ended 31st March, 2003

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE COMPANY			
COST			
At 1st April, 2002	93	2,545	2,638
Disposals	–	(1,115)	(1,115)
	<u>93</u>	<u>1,430</u>	<u>1,523</u>
At 31st March, 2003	93	1,430	1,523
DEPRECIATION			
At 1st April, 2002	15	573	588
Provided for the year	19	596	615
Eliminated on disposals	–	(418)	(418)
	<u>34</u>	<u>751</u>	<u>785</u>
At 31st March, 2003	34	751	785
NET BOOK VALUE			
At 31st March, 2003	<u>59</u>	<u>679</u>	<u>738</u>
At 31st March, 2002	<u>78</u>	<u>1,972</u>	<u>2,050</u>

Included in the net book values of property, plant and equipment are plant and machinery of nil (2002: HK\$83,000), furniture, fixtures and equipment of HK\$65,000 (2002: HK\$77,000) and motor vehicles of HK\$1,377,000 (2002: HK\$3,720,000) held under finance leases.

As at 31st March, 2003, a motor vehicle with carrying amount of HK\$220,000 (2002: HK\$352,000) is held under the name of a company in which Mr. Wong Chong Kwong, Derek, a director of the Company, has a beneficial interest, on behalf of the Group.

For the year ended 31st March, 2003

15. INTERESTS IN SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Unlisted investment, at cost less impairment	–	–
Amounts due from subsidiaries net of allowances	<u>54,955</u>	<u>75,914</u>
	<u><u>54,955</u></u>	<u><u>75,914</u></u>

The amounts due from subsidiaries are unsecured and interest free. In the opinion of the directors, no repayment will be demanded within the next twelve months and accordingly, the amounts are shown as non-current.

Particulars of principal subsidiaries of the Company as at 31st March, 2003 are as follows:

Name of company	Place of incorporation/ registration and operations	Forms of legal entity	Issued and paid-up capital	Class of shares held	Equity interest attributable to the Company		Principal activities
					Directly	Indirectly	
東莞森信電子有限公司	PRC	Wholly-owned foreign enterprise	HK\$38,000,000	N/A	–	100%	Manufacture of electronic parts and components
Honey Resources Limited	Hong Kong	Limited liability company	HK\$10,000,000	Ordinary	–	100%	Investment holding
Honey Technology Limited	Hong Kong/ PRC	Limited liability company	HK\$1,000,000	Ordinary	–	100%	Manufacture and trading of electronic parts and components
Honey Technology (B.V.I.) Limited	British Virgin Islands/ Hong Kong	Limited liability company	US\$1	Ordinary	–	100%	Investment holding
Honko BVI Limited	British Virgin Islands/ Hong Kong	Limited liability company	US\$50,000	Ordinary	–	100%	Investment holding

For the year ended 31st March, 2003

15. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ registration and operations	Forms of legal entity	Issued and paid-up capital	Class of shares held	Equity interest attributable to the Company		Principal activities
					Directly	Indirectly	
Honko Industrial (Holdings) Limited	British Virgin Islands/ Hong Kong	Limited liability company	US\$1	Ordinary	-	100%	Investment holding
Honko International Holdings Limited	Bermuda/ Hong Kong	Limited liability company	HK\$100,000	Ordinary	100%	-	Investment holding
TechCap BioTech Holdings Limited	British Virgin Islands/ Hong Kong	Limited liability company	US\$1,000	Ordinary	100%	-	Investment holding
TechCap Electronics Limited	Hong Kong	Limited liability company	HK\$2	Ordinary	-	100%	Subcontracting of electronic parts and components
TechCap Holdings (Hong Kong) Limited	Hong Kong	Limited liability company	HK\$10,000	Ordinary	100%	-	Investment holding
TechCap Investment Holdings Limited	British Virgin Islands/ Hong Kong	Limited liability company	US\$100	Ordinary	100%	-	Investment holding
Weritable Enterprises Limited	British Virgin Islands/ Hong Kong	Limited liability company	US\$3,201,300	Ordinary	-	100%	Investment holding

For the year ended 31st March, 2003

15. INTERESTS IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ registration and operations	Forms of legal entity	Issued and paid-up capital	Class of shares held	Equity interest attributable to the Company		Principal activities
					Directly	Indirectly	
Wisdom Profit Investment Limited	Hong Kong	Limited liability company	HK\$10,000	Ordinary	-	100%	Investment holding
Woodson International Limited	Hong Kong	Limited liability company	HK\$10,000	Ordinary	-	100%	Investment holding and trading of electronic of electronic parts and components
Young Honest Limited	Hong Kong	Limited liability company	HK\$10,000	Ordinary	-	100%	Investment holding

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

16. INVESTMENTS IN SECURITIES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Equity securities:		
Listed investments in Hong Kong (other investment – current)	–	108
Unlisted investments (investment securities – non-current)	46,526	28,526
Less: Impairment loss recognised on investments in securities	(7,500)	–
	<u>39,026</u>	<u>28,634</u>
Market value of		
Listed securities	<u>–</u>	<u>108</u>

For the year ended 31st March, 2003

16. INVESTMENTS IN SECURITIES *(continued)*

- (a) Included in cost of the unlisted investments as at 31st March, 2003 is an investment in Hamilton Apex Technology Ventures, L.P. (the "Partnership"), a Delaware Limited Partnership formed in California, amounting to US\$2.7 million (equivalent to HK\$21,026,000) (2002: HK\$21,026,000). The Partnership is licensed under the Small Business Investment Act of 1958, as amended, as a Small Business Investment Company for the purpose of investing in debt or equity securities of companies in United States of America. As at 31st March, 2002, the Group committed to contribute additional capital of US\$12.3 million (equivalent to HK\$95,940,000) to the Partnership upon the request by the General Partners of the Partnership. However, the Group failed to meet capital calls during the year and the General Partners declared that the Group was in default. Under the Partnership Agreement, the General Partners have the right to seek replacement investors until the Group's investments are fully replaced and forfeited. During the year, the General Partners have taken action to transfer a portion of the Group's investment in the Partnership with a capital value of HK\$639,000 (US\$82,000) to other investors without paying any consideration to the Group and another portion of capital contribution to the Partnership with capital value of HK\$7,371,000 (equivalent to US\$945,000) to another investor procured by the Group at a consideration to be received upon the liquidation of the Partnership, which is determined by the lesser of (i) the attributable portion of proceeds generated from the transferred portion of its investment in the Partnership upon liquidation; and (ii) HK\$7,371,000 (equivalent to US\$945,000) plus an annual interest of 8% accruing from date of transfer.

The directors consider that the Group's investment position in the Partnership is and will be basically preserved and the Group's investment position in the Partnership will generate positive return in the future, which will compensate for the dilution of the Group's interest in the Partnership as mentioned above. Accordingly, the directors determined that the recoverable amount of the investment in the Partnership will not be less than the carrying amount of HK\$21,026,000 and no disposal nor impairment loss has been recognised in respect of the investment in the Partnership.

- (b) On 10th June, 2002, TechCap Investment Holdings Limited ("TechCap Investment"), a wholly owned subsidiary of the Company, has acquired 30% equity interest in Lead Star Co., Ltd ("Lead Star"), a company which is engaged in the design, development and operation of sports portals, at a consideration of HK\$15 million.

For the year ended 31st March, 2003

16. INVESTMENTS IN SECURITIES *(continued)*

On 20th December, 2002, TechCap Investment entered into another sale and purchase agreement with a shareholder of Smart Universe Limited ("SU Shareholder"), which owns 58% equity interest in Smart Universe Limited ("Smart Universe"). Smart Universe is an investment holding company which in turn has been assigned the beneficial ownership of an equity interest of approximately 11.45% in a company which acts as a provider of information security solutions and services in the PRC and Hong Kong. Pursuant to the agreement, TechCap Investment acquired an 18% equity interest in Smart Universe from SU Shareholder at a consideration of HK\$15 million and the consideration was agreed to be satisfied by the transfer of TechCap Investment's 30% equity interest in Lead Star to SU Shareholder. The directors conducted a review on the fair value of the 18% equity interest in Smart Universe and determined that the fair value was HK\$10 million at the date of acquisition. Accordingly, a loss on disposal of the 30% equity interest in Lead Star of HK\$5 million has been recognised and charged to the income statement. The carrying value of the investment in Smart Universe as at 31st March, 2003 is HK\$10 million.

On 10th July, 2003, the Group entered into another sale and purchase agreement to dispose of the 18% equity interest in Smart Universe for a consideration of HK\$10 million, of which HK\$5 million was received on 7th August, 2003 while the remaining HK\$ 5 million is scheduled to be settled by end of 2003.

- (c) On 11th November, 2002, the Company entered into a share and purchase agreement with Global Med International Limited ("Global Med") by which the Company agreed to acquire and Global Med agreed to dispose of the 100% interest in Global Med China & Asia Limited ("GMCAL"), a wholly owned subsidiary of Global Med, for a consideration of HK\$8 million. The consideration was satisfied by the execution of a promissory note of HK\$8 million (the "Promissory Note") by the Company in favour of Global Med. On the same date, another share purchase agreement amendment was entered into between the Company and Global Med whereby the shares of GMCAL would be delivered to New Access Limited, a wholly owned subsidiary of the Company. The carrying value of investment in Global Med as at 31st March, 2003 is HK\$8 million.

Pursuant to the Promissory Note executed by the Company, as long as any amounts remain due under the Promissory Note, the Company cannot change the corporate structure, share structure, or Board of Directors of GMCAL without the written consent of Global Med. As the Promissory Note was not yet settled at the balance sheet date, the Group could not exercise control over the board of GMCAL and accordingly, the investment in Global Med is considered as investments in securities.

For the year ended 31st March, 2003

16. INVESTMENTS IN SECURITIES *(continued)*

Pursuant to a cancellation agreement entered into between the Company and Global Med on 19th August, 2003, the Company has agreed with Global Med to cancel the share purchase agreement with effect from 19th August, 2003 onwards.

- (d) Included in the cost above is another unlisted investment of HK\$7.5 million (2002: HK\$7.5 million), represented a 15% equity interest in Steer Tornado Holdings Ltd ("Steer Tornado"), an investment holding company which in turn owns a 25% equity interest in China Advantage Limited ("China Advantage"). China Advantage has been assigned the beneficial ownership of three biological and chemical engineering technology patents, two of which have been registered in the PRC. The directors have reviewed the carrying amount of this investment and determined that this investment would not generate positive cash flows for the foreseeable future and consequently an impairment loss of HK\$7.5 million has been recognised and charged to the income statement.

17. LOAN RECEIVABLES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Secured term loans	31,135	21,854
Unsecured term loans	3,971	4,052
	35,106	25,906
Less: Amount due within one year shown under current assets	(13,905)	(3,820)
Amount due after one year	21,201	22,086

For the year ended 31st March, 2003

17. LOAN RECEIVABLES (continued)

- (a) Included in the secured term loans as at 31st March, 2003 is an amount of HK\$21,026,000 (2002: HK\$21,026,000) which bears interest at 2% over Hong Kong prime rates and is repayable in one lump sum on 29th September, 2004. The loan is secured by the borrower's investments in the Partnership (see note 16(a) above). However, the borrower has failed to meet the capital calls and the General Partners also declared that the borrower was in default. Under the Partnership Agreement, the General Partners have the right to seek replacement investors until the borrower's investments are fully replaced and forfeited. During the year, the General Partners have taken action to transfer a portion of the borrower's investment in the Partnership with a capital value of HK\$639,000 (US\$82,000) to other investors without paying any consideration to the borrower and another portion of the capital contribution to the Partnership with a capital value of HK\$7,371,000 (equivalent to US\$945,000) to another investor procured by the borrower at a consideration to be received upon the liquidation of the Partnership, which determined by the lesser of (i) the attributable portion of proceeds generated from the transferred portion of its investment in the Partnership upon liquidation; and (ii) HK\$7,371,000 (equivalent to US\$945,000) plus an annual interest of 8% accruing from date of transfer.

The directors consider that the borrower's investment position in the Partnership is and will be basically preserved and the Partnership will generate a positive return in the future, which will compensate for the dilution of the borrower's interest in the Partnership mentioned above. Accordingly, the directors determined that the recoverable amount of the loan receivable will not be less than the carrying amount of HK\$21,026,000 and no allowance for the loan receivable has been made in the financial statements.

- (b) The remaining balance of the secured term loan as at 31st March, 2003 of HK\$10,109,000 bears interest at 5% per annum and is repayable on 30th March, 2004.

On 13th August, 2003, a settlement agreement was entered into between the Group and the borrower. Pursuant to the agreement, the borrower agreed to repay the loan by the transfer of unlisted warrants of a Korean listed company to the Group at a consideration of HK\$10,614,000.

- (c) The unsecured term loans bear average interest at 7% per annum and are repayable within the period from 2003 to 2006.

On 20th June, 2003, a settlement agreement was entered into between the Group and Smart Port Finance Limited ("Smart Port"). Pursuant to the agreement, unsecured term loans of HK\$3,609,000 as mentioned above and interest receivable of HK\$231,000, were assigned to Smart Port at a consideration of HK\$3,840,000 and the consideration was agreed to be settled by transfer of equity securities of a company listed on the Stock Exchange held by Smart Port with reference to the closing market price of the relevant trading securities as at 19th June, 2003.

For the year ended 31st March, 2003

18. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Raw materials	30,704	16,332
Work in progress	5,615	12,685
Finished goods	9,867	12,866
	<u>46,186</u>	<u>41,883</u>

Included above are work in progress of HK\$5,615,000 (2002: HK\$10,668,000) and finished goods of HK\$9,833,000 (2002: HK\$12,866,000) which are carried at net realisable value.

19. TRADE RECEIVABLES

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

	2003	2002
	HK\$'000	HK\$'000
Current	25,081	15,281
Overdue 30 days	5,473	5,568
Overdue 31 – 60 days	2,136	2,162
Overdue 61 – 90 days	983	1,148
Overdue over 90 days	1,479	1,247
	<u>35,152</u>	<u>25,406</u>
Total		

For the year ended 31st March, 2003

20. EXCHANGEABLE LOAN RECEIVABLES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Secured term loans	32,500	12,500
Less: Allowance for secured term loan	(18,000)	–
	<u>14,500</u>	<u>12,500</u>

- (a) The exchangeable loan receivable of HK\$12.5 million as at 31st March, 2002 represented a loan to a shareholder of Steer Tornado (the "ST Shareholder") which carries interest at the same amount as the dividends receivable from the 25% equity interest in Steer Tornado. After 14th September, 2002, both the ST Shareholder and the Group had the option to convert the loan into a 25% equity interest in Steer Tornado. The loan was repayable on 14th March, 2003 if the option was not exercised.

Pursuant to a supplementary agreement entered into on 28th June, 2002, the ST Shareholder's option to convert the loan into a 25% equity interest in Steer Tornado has been superseded. The loan has also become interest bearing at 6% per annum commencing from 15th August, 2002 and is repayable in five instalments from 15th October, 2002 onwards. However, no repayment has been made by the ST Shareholder pursuant to the supplementary agreement.

On 28th March, 2003, the Group entered into another supplementary agreement with the ST Shareholder and another company which acts as the guarantor of ST Shareholder (the "Guarantor") that the loan would be secured by 18% equity interest in Smart Universe which owned by the Guarantor. The Group has the option to convert the loan into 18% equity interest in Smart Universe which owned by the Guarantor after 27th September, 2003. The interest due will be paid on or before 30th September, 2003 and the loan is repayable on 28th March, 2004.

On 30th July, 2003, the Group entered into an exchangeable loan settlement agreement with ST Shareholder and the Guarantor that ST Shareholder repaid HK\$7.5 million on 31st July, 2003 as full settlement of the outstanding principal amount and interest receivable in respect of the exchangeable loan. In addition, the collateral of the Guarantor with respect of the loan was released. The directors determined that the remaining balance of the exchangeable loan receivable from ST Shareholder of HK\$5 million would not be recovered and accordingly an allowance for loan receivable of HK\$5 million is recognised in the income statement.

For the year ended 31st March, 2003

20. EXCHANGEABLE LOAN RECEIVABLES *(continued)*

- (b) On 26th June, 2002, TechCap Investment entered into another exchangeable loan facility agreement with a third party and a loan of HK\$25 million was granted which carried interest at 4% per annum. TechCap Investment has the option to convert the loan into the remaining equity interest in Lead Star which owned by the borrower after 27th December, 2002.

On 2nd July, 2002, TechCap Investment assigned the exchangeable loan to Wisdom Profit Investment Limited ("Wisdom Profit"), another wholly owned subsidiary of the Company, at nil consideration.

On 30th September, 2002, HK\$5 million was settled by the borrower.

On 20th December, 2002, a novation agreement was entered into between Wisdom Profit, the borrower and SU Shareholder that SU Shareholder has undertaken to repay the remaining balance of the exchangeable loan of HK\$20 million and the loan would be secured by a 30% equity interest in Smart Universe which is owned by SU Shareholder.

Pursuant to the novation agreement, both SU Shareholder and the Group have the option to convert the loan into a 30% equity interest in Smart Universe which is owned by SU Shareholder after 19th June, 2003. Nevertheless, no option was exercised and the loan is repayable on 19th December, 2003.

On 18th July, 2003, a supplementary agreement to the novation agreement dated 20th December, 2002 was entered into between the Group and SU Shareholder that:

- (i) SU Shareholder should repay not less than HK\$6.5 million to the Group on or before 27th August, 2003;
- (ii) SU Shareholder should procure and perfect the legal title of additional collateral in favour of the Group for covering the remaining balance of the exchangeable loan on or before 27th August, 2003; and
- (iii) The Group agreed to release the 18% equity interest in Smart Universe as collateral in favour of the Group upon the partial repayment of the loan by SU Shareholder for no less than HK\$3.3 million.

For the year ended 31st March, 2003

20. EXCHANGEABLE LOAN RECEIVABLES *(continued)*

On 25th July, 2003, SU Shareholder repaid HK\$3.3 million to the Group. On 26th August, 2003, SU Shareholder further has repaid HK\$3.7 million to the Group. As of 27th August, 2003, SU shareholder has repaid HK\$7 million in aggregate to the Group, but the perfection of the legal title of the additional collateral in favour of the Group was not yet completed. As such, the directors determined that the recoverability of the remaining exchangeable loan receivable balance of HK\$13 million cannot be ascertained and accordingly, an allowance for exchangeable loan receivable of HK\$13 million is recognised in the income statement.

21. GOOD FAITH DEPOSIT

The good faith deposit ("Deposit") of HK\$10 million represented good faith money paid to the ST Shareholder to acquire up to a 55% equity interest in Steer Tornado. The Group could have exercised the purchase right on or before 14th August, 2002 (the "Exercisable Period"). Throughout the Exercisable Period, the Group and the buyer would try to finalise the sale and purchase agreement and/or the exchangeable loan agreement between them. The Deposit would be returned to the Group with no interest immediately and unconditionally should the Group decide not to exercise the purchase right during the period.

On 18th June, 2002, the Group served notice to the ST Shareholder that the Group decided not to exercise the purchase right and the deposit was refunded during the year.

22. TRADE PAYABLES

The aged analysis of the Group is as follows:

	2003	2002
	HK\$'000	HK\$'000
Not yet due to overdue 30 days	31,760	16,202
Overdue 31 – 60 days	12,948	5,120
Overdue 61 – 90 days	4,654	1,366
Overdue over 90 days	16,953	20,568
	66,315	43,256
Total	66,315	43,256

For the year ended 31st March, 2003

23. OBLIGATIONS UNDER FINANCE LEASES

THE GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable under finance leases:				
Within one year	3,123	5,817	2,885	5,300
In the second year	2,083	3,536	1,975	3,277
In the third to fifth year inclusive	2,160	4,281	2,138	4,150
	<u>7,366</u>	<u>13,634</u>	<u>6,998</u>	<u>12,727</u>
Less: future finance charges	<u>(368)</u>	<u>(907)</u>	<u>-</u>	<u>-</u>
Present value of lease obligations	<u>6,998</u>	<u>12,727</u>	<u>6,998</u>	<u>12,727</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)			<u>(2,885)</u>	<u>(5,300)</u>
Amount due for settlement after 12 months			<u>4,113</u>	<u>7,427</u>

For the year ended 31st March, 2003

23. OBLIGATIONS UNDER FINANCE LEASES (continued)

THE COMPANY

	Minimum lease payments		Present value of minimum lease payments	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable under finance leases:				
Within one year	281	591	261	498
In the second year	68	506	67	471
In the third to fifth year inclusive	–	105	–	104
	<u>349</u>	<u>1,202</u>	<u>328</u>	<u>1,073</u>
Less: future finance charges	<u>(21)</u>	<u>(129)</u>	<u>–</u>	<u>–</u>
Present value of lease obligations	<u>328</u>	<u>1,073</u>	<u>328</u>	<u>1,073</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)				
			<u>(261)</u>	<u>(498)</u>
Amount due for settlement after 12 months			<u>67</u>	<u>575</u>

The Group has leased certain of its fixtures and equipment and motor vehicles under finance leases with an average lease term of 3 years. For the year ended 31st March, 2003, the average effective borrowing rate was approximately 5%. Interest rates are fixed at the contract date. All leases have fixed repayment schedules and no arrangements have been entered into for contingent rental payments.

For the year ended 31st March, 2003

24. PROMISSORY NOTE PAYABLE

The promissory note payable of HK\$8 million as at 31st March, 2003 represents the promissory note executed by the Company in favour of Global Med upon the acquisition of entire interest in GMCAL as set out in note 16(c).

The maturity date of TechCap' s Promissory Note is 10th December, 2002. As the Company failed to pay the amount on or before the maturity date, the Company automatically triggered to guarantee all obligations of GMCAL under another promissory note of HK\$1,076 million executed by GMCAL in favour of Global Med pursuant to the Promissory Note.

Pursuant to the cancellation agreement dated 19th August, 2003 (see note 16(c) above), the Company has agreed with Global Med to cancel the acquisition of 100% equity interest in GMCAL with effect from 19th August, 2003. Accordingly, the obligations under the Promissory Note and the relevant guarantee have been released.

25. AMOUNTS DUE TO RELATED COMPANIES

At 31st March, 2003, except for the amounts of HK\$4,967,000 and HK\$1,273,000 due to a related company by the Group and the Company respectively which bear interest at 12% per annum, the remaining amounts due to related companies are interest-free, unsecured and have no fixed terms of repayment.

During the year ended 31st March, 2002, certain balances due to related companies, shareholders and directors brought forward from previous year were partially repaid or waived upon the Financial Restructuring.

Certain directors of the Group are the directors of and have beneficial interests in these related companies.

26. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

For the year ended 31st March, 2003

27. BONDS

	THE GROUP AND THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
At beginning of the year	39,000	–
Issued during the year	–	93,600
Redeemed during the year	(33,540)	(54,600)
	<hr/>	<hr/>
At end of the year	<u>5,460</u>	<u>39,000</u>

The bonds carry interest at 12% per annum. At any time on or before the maturity date of 30th August, 2003, the Company is entitled to redeem the bonds at 108% of face value of the bonds without interest. In addition, at any time on or after 30th 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.

For the year ended 31st March, 2003

28. SHARE CAPITAL

Ordinary shares

	at HK\$0.005 per share	Number of shares at HK\$1 per share	at HK\$0.1 per share	at HK\$0.005 per share HK\$'000	Amounts at HK\$1 per share HK\$'000	at HK\$0.1 per share HK\$'000
<i>Authorised:</i>						
Balance at 1st April, 2001	20,000,000	-	-	100	-	-
Increase on 16th May, 2001	14,980,000,000	-	-	74,900	-	-
Balance at 31st March, 2002	15,000,000,000	-	-	75,000	-	-
Increase in authorised share capital	85,000,000,000	-	-	425,000	-	-
Consolidation of shares of 200 into 1	(100,000,000,000)	500,000,000	-	(500,000)	500,000	-
Cancellation of shares on capital reduction	-	(424,839,473)	-	-	(424,839)	-
Effect on capital reduction	-	(75,160,527)	75,160,527	-	(75,161)	7,516
Increased in authorised share capital pursuant to capital reduction	-	-	4,924,839,473	-	-	492,484
Balance at 31st March, 2003	-	-	5,000,000,000	-	-	500,000
<i>Issued and fully paid:</i>						
Balance at 1st April, 2001	-	-	-	-	-	-
Issue of shares as consideration for the exchange of the issued share capital of Honko	358,005,000	-	-	1,790	-	-
Issue of shares under the provisional allotment	1,432,019,000	-	-	7,160	-	-
Issue of shares to investors	2,800,000,000	-	-	14,000	-	-
Issue of shares to placees procured by Kingsway	1,000,000,000	-	-	5,000	-	-
Issue of shares to settle bank and other borrowings	180,894,000	-	-	905	-	-
Issue of shares to management creditors	416,667,000	-	-	2,084	-	-
Issue of shares to finance leases creditors regarding waiver of debts due to them	34,021,000	-	-	170	-	-
Issue of shares to certain Honko Group directors regarding capitalisation of Honko Group directors' loans	700,000,000	-	-	3,500	-	-
Issue of shares to a related company regarding waiver of a related company's debts	287,500,000	-	-	1,437	-	-
Issue of shares to certain Honko Group directors regarding waiver of Honko Group directors' loans	84,000,000	-	-	420	-	-
Issue of shares on exercise of convertible notes	2,250,000,000	-	-	11,250	-	-
Issue of shares on exercise of share options	739,000,000	-	-	3,695	-	-
Balance at 31st March, 2002	10,282,106,000	-	-	51,411	-	-
Issue of shares on exercise of convertible notes	200,000,000	-	-	1,000	-	-
Issue of shares on exercise of share options	1,000,000,000	-	-	5,000	-	-
Issue of shares by private placement	3,550,000,000	-	-	17,750	-	-
Consolidation of shares of 200 into 1	(14,956,945,473)	-	-	-	-	-
Effect on consolidation of shares	(75,160,527)	75,160,527	-	(75,161)	75,161	-
Reduction of nominal value of the ordinary shares	-	(75,160,527)	75,160,527	-	(75,161)	7,516
Issue of shares on exercise of convertible bonds	-	-	22,571,050	-	-	2,257
Issue of shares on exercise of convertible notes	-	-	2,500,000	-	-	250
Balance at 31st March, 2003	-	-	100,231,577	-	-	10,023

For the year ended 31st March, 2003

28. SHARE CAPITAL *(continued)*

Non-voting preference shares of HK\$10 each

	Number of shares	Amount <i>HK\$'000</i>
<i>Authorised:</i>		
Balance at 1st April, 2001 and 31st March, 2002	–	–
Creation during the year	100,000,000	1,000,000
	<hr/>	<hr/>
Balance at 31st March, 2003	<u>100,000,000</u>	<u>1,000,000</u>
Issued and fully paid	<hr/> –	<hr/> –

For the year ended 31st March, 2003

28. SHARE CAPITAL *(continued)*

Non-voting preference shares of HK\$10 each *(continued)*

Details of changes in the share capital of the Company are as follows:

Authorised:

- (a) On incorporation, the authorised share capital of the Company was HK\$100,000 divided into 20,000,000 ordinary shares of HK\$0.005 each, all of which were issued and allotted nil paid on 27th November, 2000. On 16th May, 2001, these 20,000,000 ordinary shares were repurchased and cancelled by the Company.
- (b) On 16th May, 2001, the authorised share capital of the Company was increased from HK\$100,000 to HK\$75,000,000 by the creation of a further 14,980,000,000 ordinary shares of HK\$0.005 each, ranking pari passu with the then existing share capital of the Company.
- (c) On 6th September, 2002, the authorised share capital of the Company was increased from HK\$75,000,000 divided into 15,000,000,000 ordinary shares of HK\$0.005 to HK\$1,500,000,000 divided into HK\$1,000,000,000 non-voting preference shares of HK\$10 each and HK\$500,000,000 ordinary shares of HK\$0.005 each by the creation of a further 85,000,000,000 ordinary shares of HK\$0.005 each, ranking pari passu with the existing share capital of the Company and 100,000,000 non-voting preference shares of HK\$10 each, which carry equal rights and rank pari passu with the existing ordinary share of HK\$0.005 each in the capital of the Company except for the priority of dividend and return of capital.
- (d) Pursuant to an ordinary resolution passed in a special general meeting of the Company held on 7th October, 2002, the ordinary shares of the Company were consolidated on the basis that every 200 issued and unissued ordinary shares of HK\$0.005 each was consolidated into one ordinary share of HK\$1 each and rank pari passu in all respects.
- (e) Pursuant to a special resolution passed in a special general meeting held on 2nd December, 2002:
 - (i) the nominal value of all the issued ordinary shares of HK\$1 each was reduced from HK\$1 to HK\$0.1 each by the cancellation of HK\$0.9 of the paid-up capital on each issued ordinary share.
 - (ii) the existing authorised but unissued ordinary share capital of the Company were cancelled and the authorised share capital of the Company increased back to HK\$1,500,000,000 by the creation of an additional 4,924,839,473 ordinary shares of HK\$0.1 each and the maintaining of the 100,000,000 non-voting preference shares of HK\$10 each.

28. SHARE CAPITAL *(continued)***Non-voting preference shares of HK\$10 each** *(continued)**Issued and fully paid:*

- (a) Details of the movement of issued share capital during the year ended 31st March, 2002 in respect of the Financial Restructuring are set out note 2.

- (b) On 29th July, 2002, arrangements were made for a private placement of 1,850,000,000 ordinary shares of HK\$0.005 each in the Company held by certain shareholders of the Company, at a price of HK\$0.01 per share representing a discount of approximately 8.3% to the average closing market price of the Company's shares for the ten trading days ended 29th July, 2002.

Pursuant to a subscription agreement of the same date, the aforesaid shareholders subscribed for 1,750,000,000 new ordinary shares of HK\$0.005 each in the Company at a subscription price of HK\$0.01 per share. The proceeds were used to reduce borrowings and to provide additional working capital for the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 27th August, 2001 and rank pari passu with the existing shares in issue in all respects.

- (c) On 27th September, 2002, another arrangement was made for a private placement of 1,800,000,000 ordinary shares of HK\$0.005 each in the Company held by certain shareholders of the Company, at par value per share representing a discount of approximately 50% to the closing market price of the Company's shares on 27th September, 2002.

Pursuant to a subscription agreement of the same date, the aforesaid shareholders subscribed for 1,800,000,000 new ordinary shares of HK\$0.005 each in the Company at par value per share. The proceeds were used to reduce borrowings and to provide additional working capital for the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 19th August, 2002 and rank pari passu with the existing shares in issue in all respects.

- (d) Details of issue of ordinary shares upon conversion from convertible bonds, convertible notes and exercise of share options are set out in notes 30, 31 and 36 respectively.

For the year ended 31st March, 2003

29. RESERVES

Details of the movements in the share premium and reserves of the Group are set out in Consolidated Statement of Changes in Equity on page 25 and 26.

	Share premium	Contributed surplus	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE COMPANY				
At 1st April, 2001	–	–	(1,109)	(1,109)
Shares issued at a premium	106,271	–	–	106,271
Share issue expenses	(3,461)	–	–	(3,461)
Loss for the year	–	–	(112,222)	(112,222)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2002	102,810	–	(113,331)	(10,521)
Share premium cancellation	(102,810)	102,810	–	–
Elimination of accumulated losses	–	(113,331)	113,331	–
Shares issued at a premium	56,000	–	–	56,000
Share issue expenses	(469)	–	–	(469)
Transferred from capital reduction	–	67,645	–	67,645
Loss for the year	–	–	(87,465)	(87,465)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2003	<u>55,531</u>	<u>57,124</u>	<u>(87,465)</u>	<u>25,190</u>

The contributed surplus of the Company which arose during the year ended 31st March, 2003 represents the net effect of the capital reduction, the share premium cancellation and the elimination with the accumulated losses of the Company as at 31st March, 2002.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, as at 31st March, 2003, the Company did not have any reserve available for distribution to shareholders.

For the year ended 31st March, 2003

30. CONVERTIBLE BONDS

	THE GROUP AND THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
Issued on 28th November, 2002	4,232	–
Converted during the year	(2,257)	–
	1,975	–
At end of year	1,975	–

The convertible bonds carry interest at 6% payable semi-annually in arrears with the first interest payment due on 30th June, 2003 and the last interest payment due on 6th November, 2005. Each bond entitles the holder to convert the bond into new shares of the Company at a conversion price, subject to adjustment, of HK\$0.1 per share, subsequent to the consolidation of shares and capital reduction, during the period from 28th November, 2002 to 6th November, 2005. In addition, if the convertible bonds remain outstanding on the maturity date, the Company will redeem the principal of the bonds at 100% of face value of the bonds. During the year, certain holders have converted HK\$2,257,000 convertible bonds into 22,571,050 shares of HK\$0.1 per share in the Company.

For the year ended 31st March, 2003

31. CONVERTIBLE NOTES

	THE GROUP AND THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
At beginning of year	2,500	–
Issued during the year	–	25,000
Converted during the year	(2,500)	(22,500)
	<hr/>	<hr/>
At end of year	<u>–</u>	<u>2,500</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 of HK\$0.01 per share, prior to the consolidation of shares and capital reduction, and HK\$0.2 per share, after adjustment for the consolidation of shares and capital reduction, during the period from 14th June, 2001 to 13th June, 2004. During the year, the holders have converted HK\$2,000,000 and HK\$500,000 convertible notes into 200,000,000 shares of HK\$0.005 per share, prior to the consolidation of shares and capital reduction, and 2,500,000 shares of HK\$0.1 per share, after adjustment for the consolidation of shares and capital reduction, respectively.

32. MAJOR NON-CASH TRANSACTIONS

During the year, other than conversion of the convertible bonds and convertible notes into shares in the Company as set out in notes 30 and 31 above, the Group had the following major non-cash transactions:

- (a) a motor vehicle of the Group with a net book value of HK\$240,000 was disposed of at its net book value to a director and settled by offset against the amount due to a director.
- (b) the Group acquired a 18% equity interest in Smart Universe from Global Genius at the consideration of HK\$15 million which was agreed to be satisfied by the transfer of the 30% equity interest in Lead Star. Upon the completion of the transfer, a loss on disposal of investments in securities of HK\$5 million has been recognised and charged to the income statement.
- (c) In addition, the Company acquired a 100% interest in GMCAL, for a consideration of HK\$8 million which was satisfied by executing a promissory note payable of HK\$8 million.

For the year ended 31st March, 2003

33. DEFERRED TAXATION

At the balance sheet date, the major components of the unprovided deferred tax asset (liabilities) are as follows:

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences because of:				
Tax losses	17,292	18,251	1,761	3,447
Difference between tax allowances and depreciation	<u>303</u>	<u>(317)</u>	<u>(60)</u>	<u>(138)</u>
	<u>17,595</u>	<u>17,934</u>	<u>1,701</u>	<u>3,309</u>

The amount of unprovided deferred tax (charge) credit for the year is as follows:

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences because of:				
Tax losses arose (utilised)	(959)	(14,873)	(1,686)	3,447
Difference between tax allowances over depreciation	<u>620</u>	<u>(886)</u>	<u>78</u>	<u>(138)</u>
	<u>(339)</u>	<u>(15,759)</u>	<u>(1,608)</u>	<u>3,309</u>

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

For the year ended 31st March, 2003

34. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bills discounted with recourse	1,336	501	–	–
Guarantees given to banks in respect of banking facilities utilised by the subsidiaries	–	–	339	1,188
	<u>1,336</u>	<u>501</u>	<u>339</u>	<u>1,188</u>

35. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2003 HK\$'000	2002 HK\$'000
Land and buildings:		
Within one year	3,364	5,332
In the second to fifth year, inclusive	1,883	7,214
	<u>5,247</u>	<u>12,546</u>
Plant and machinery:		
Within one year	–	1,740
In the second to fifth year, inclusive	–	540
	<u>–</u>	<u>2,280</u>
Motor vehicle:		
Within one year	150	276
In the second to fifth years, inclusive	–	150
	<u>150</u>	<u>426</u>

Leases are negotiated for an average term of 3 to 4 years and rentals are fixed for an average of 3 to 4 years.

The Company had no operating lease commitments at the balance sheet date.

For the year ended 31st March, 2003

36. SHARE OPTION SCHEMES

Pursuant to the share option scheme adopted by the Company in 2001 (the "Old Scheme"), the Company may grant options to any directors or full time employees of the Company or its subsidiaries to subscribe for shares in the Company at a subscription price which is the higher of 80% of the average closing price of the Company's shares for the five trading days immediately preceding the date of grant or the nominal value of the Company's shares. The Old Scheme was replaced by the Company's existing share option scheme (the "New Scheme") which was adopted pursuant to a resolution passed on 8th April, 2002, and will expire on 7th April, 2012. All outstanding options continue to be valid and exercisable in accordance with the terms of the Old Scheme.

Under the New Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties who (i) have previously been and continue to be retained by the Group to provide business, legal or tax consultancy services or other professional services, whose expertise is valuable to the business development of the Group; or (ii) introduce investment opportunities to the Group; or (iii) contribute by way of introduction of new business to the Group.

The maximum number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 10% of the shares of the Company in issue at the adoption date, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital in issue or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within the period as specified in the offer letter and no consideration of grant needs to be paid. Options may be exercised at any time from the date of grant to the expiry date of the New Scheme. The exercise price is determined by the directors of the Company, and shall be the highest of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five trading days immediately preceding the date of grant and the nominal value of the Company's shares.

For the year ended 31st March, 2003

36. SHARE OPTION SCHEMES (continued)

The following table summarises movements in the Company's share options during the year ended 31st March, 2003:

Option type	Date of grant	Exercisable period		Exercise price before consolidation of shares	Exercise price as adjusted for consolidation of shares
		From	To	HK\$	HK\$
A	31st August, 2001	31st August, 2001	15th May, 2011	0.043	8.6
B	11th October, 2001	11th October, 2001	15th May, 2011	0.052	10.4
C	11th February, 2002	11th February, 2002	15th May, 2011	0.046	9.2
D	15th February, 2002	15th February, 2002	15th May, 2011	0.046	9.2
E	10th April, 2002	10th April, 2002	7th April, 2012	0.051	10.2
F	27th November, 2002	27th November, 2002	7th April, 2012	N/A	1.0

The exercise prices of the share options were adjusted with the effect for the consolidation of shares during the year ended 31st March, 2003.

36. SHARE OPTION SCHEMES (continued)

Old Scheme

	Option type	Outstanding at 1st April, 2002	Number of share options		Outstanding at 31st March, 2003
			Lapsed	Adjustment due to consolidation of the Company's share	
Directors	A	100,000,000	–	(99,500,000)	500,000
Employees	A	120,000,000	–	(119,400,000)	600,000
	B	6,000,000	(6,000,000)	–	–
Total employees		126,000,000	(6,000,000)	(119,400,000)	600,000
Total		226,000,000	(6,000,000)	(218,900,000)	1,100,000

At 31st March, 2003, the number of shares in respect of which options had been granted and remained outstanding under the Old Scheme was 1,100,000 (2002: 1,130,000 after adjusted for the effect of the consolidation of the Company's shares), representing 1.1% (2002: 2.2% after adjusted for the effect of the consolidation of the Company's shares) of the shares of the Company in issue at that date.

For the year ended 31st March, 2003

36. SHARE OPTION SCHEMES (continued)

New Scheme

	Option type	Outstanding at 1st April, 2002	Number of share options		Outstanding at 31st March, 2003
			Granted	Exercised	
Directors	F	–	900,000	–	900,000
Employees	E	–	200,000,000	(200,000,000)	–
	F	–	850,000	–	850,000
Total employees		–	200,850,000	(200,000,000)	850,000
Others	E	–	800,000,000	(800,000,000)	–
	F	–	5,750,000	–	5,750,000
Total others		–	805,750,000	(800,000,000)	5,750,000
Total		–	1,007,500,000	(1,000,000,000)	7,500,000

The weighted average closing prices of the Company's shares immediate before the dates of which the share options exercised during the year ended 31st March, 2003 was HK\$0.05.

At 31st March, 2003, the number of shares in respect of which options had been granted and remained outstanding under the New Scheme was 7,500,000 (2002: nil), representing 7.5% of the shares of the Company in issue at that date.

36. SHARE OPTION SCHEMES (continued)

New Scheme (continued)

The following table summarises the movements in the Company's share options under the Old Scheme during the year ended 31st March, 2002:

	Option type	Number of share options				Outstanding at 31st March, 2002
		Outstanding at 1st April, 2001	Granted during the year	Exercised	Lapsed	
Directors	A	–	480,000,000	(290,000,000)	(90,000,000)	100,000,000
Employees	A	–	320,000,000	(200,000,000)	–	120,000,000
	B	–	10,000,000	(4,000,000)	–	6,000,000
	C	–	145,000,000	(145,000,000)	–	–
	D	–	100,000,000	(100,000,000)	–	–
Total employees		–	575,000,000	(449,000,000)	–	126,000,000
Total		–	1,055,000,000	(739,000,000)	(90,000,000)	226,000,000

The weighted average closing prices of the Company's shares immediate before the dates on which the share options were exercised during the year ended 31st March, 2002 ranged from HK\$0.53 to HK\$0.78.

No consideration was received during the year from any person for taking up the options granted and no charge was recognised in the income statement in respect of the value of options granted.

37. RETIREMENT BENEFITS SCHEME

The Group operates Mandatory Provident Fund Schemes for all qualifying employees. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

The retirement benefits cost charged to the income statement represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

For the year ended 31st March, 2003

38. RELATED PARTY TRANSACTION

During the year, the Group has entered into the following significant related party transactions:

- (a) The Group paid interest on an amount due to a related company, amounting to HK\$488,000 (2002: Nil). The terms of the interest charge on the amount due to a related company are set out in note 25.

A director of the Company, has beneficial interests in this related company.

- (b) During the year, a motor vehicle of the Group with net book value of HK\$240,000 was disposed to a director of the Company at its net book value to settle the amount due to the director.

39. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant events took place:

- (a) 10,450,000 shares in the Company, at the conversion price of HK\$0.1, were issued and allotted to respective convertible bond holders.
- (b) 750,000 shares in the Company, at a subscription price of HK\$1 each, were issued to the option holders upon exercising their share options.
- (c) On 8th April, 2003, the shareholders of the Company resolved as an ordinary resolution to issue 3% convertible bonds in the aggregate principal amount of HK\$50 million pursuant to the conditional placing agreement ("Conditional Placing Agreement") entered into between the Company and Kingston Securities Limited dated 23rd January, 2003. On 4th June, 2003, subscription agreements have been entered into between the Company and seven independent subscribers ("the subscribers"). On 24th June, 2003, the Listing Committee of the Stock Exchange has granted the permission to deal in the conversion shares. HK\$50 million has been received from the subscribers on 27th June, 2003.

For the year ended 31st March, 2003

39. POST BALANCE SHEET EVENTS *(continued)*

- (d) On 20th June, 2003, a conditional sale and purchase agreement (“Agreement”) was entered into between TechCap Investment and ST Shareholder. Pursuant to the Agreement, TechCap Investment agreed to acquire a 100% equity interest in a company which is wholly owned by ST Shareholder, at a total consideration of HK\$15 million. The completion of this transaction is subject to the satisfaction of all the conditions set out in the Agreement.

On 28th July, 2003, a termination agreement was entered into between TechCap Investment and ST Shareholder to terminate the Agreement. Upon the execution of the termination agreement, ST Shareholder will return the prepayment of HK\$10 million made by the Group to ST shareholder during the year. On 30th July, 2003, a deed of settlement was entered into that ST Shareholder would return HK\$5 million in aggregate on or before 15th August, 2003 and the balance of HK\$5 million will be repaid on or before 15th November, 2003. HK\$5 million has been repaid by ST Shareholder up to 27th August, 2003. The directors determined that the remaining balance of HK\$5 million prepayment can be recovered.

- (e) On 3rd July, 2003, a conditional sale and purchase agreement was entered into between TechCap Investment and Dinshing Industries Limited (“Dinshing Industries”). Pursuant to the agreement, TechCap Investment agreed to acquire 35% equity interest in Global United Holdings Limited (“Global United”), a company which is wholly owned by Dinshing Industries, at a consideration of approximately HK\$10.5 million to be satisfied in full by the issue and allotment of 12,300,000 ordinary shares (the “Consideration Shares”) of the Company at an issue price of HK\$0.85 per share. Global United will be holding a 100% equity interest in 定誠生物圖像科技(上海)有限公司 Dinshing Biological Image Technology (Shanghai) Company Limited (“Dinshing Shanghai”) which is engaged in the field of diagnostic medical devices with its proprietary technology in the PRC. Dinshing Shanghai will be accounted for as an associate of the Group after the completion of the transaction. On 20th August, 2003, the shareholders of the Company resolved as an ordinary resolution to issue the Consideration Shares.