

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2003

1. BASIS OF PRESENTATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March, 2003, except that the Group had adopted SSAP 12 (Revised) "Income Taxes" which is effective for accounting periods commencing on or after 1st January, 2003. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of this SSAP has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SEGMENT INFORMATION

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

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	Manufacturing of electronic parts and components (Unaudited) <i>HK\$'000</i>	Sourcing and distribution of electronic parts and components (Unaudited) <i>HK\$'000</i>	Investment holding (Unaudited) <i>HK\$'000</i>	Consolidated (Unaudited) <i>HK\$'000</i>
For the six months ended 30th September, 2003				
Segment revenue	121,861	11,367	-	133,228
Segment results	2,293	248	(2,713)	(172)
Unallocated operating income				212
Unallocated corporate expenses				(19,031)
Loss from operations				(18,991)
Finance costs				(1,257)
Loss before taxation				(20,248)
For the six months ended 30th September, 2002				
Segment revenue	108,616	6,071	-	114,687
Segment results	(2,213)	(124)	38	(2,299)
Unallocated operating income				2,531
Unallocated corporate expenses				(13,611)
Loss from operations				(13,379)
Finance costs				(2,593)
Loss before taxation				(15,972)

Geographical segments

	Segment revenue For the six months ended 30th September,		Segment results For the six months ended 30th September,	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Hong Kong	84,927	98,156	(1,093)	(1,962)
Other Asian countries	46,642	13,197	890	(269)
United States of America	113	912	2	(19)
Europe and others	1,546	2,422	29	(49)
	133,228	114,687	(172)	(2,299)
Unallocated operating income			212	2,531
Unallocated corporate expenses			(19,031)	(13,611)
Loss from operations			(18,991)	(13,379)

4. LOSS FROM OPERATIONS

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

	For the six months ended 30th September,	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Allowance for loan receivables	598	–
Depreciation of property, plant and equipment	1,022	1,832
Loss on disposal of investments in securities	293	38
(Gain) loss on disposal of property, plant and equipment	(127)	99

5. FINANCE COSTS

	For the six months ended 30th September,	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Interest on:		
Bank loans, overdrafts and other borrowings wholly repayable within five years	314	123
Bonds	354	140
Convertible bonds/notes	387	28
Promissory notes	73	–
Obligations under finance leases	129	305
Premium on redemption of bonds	–	1,997
	1,257	2,593

6. TAXATION

No provision for Hong Kong Profits Tax has been made since the Group did not generate any assessable profits during the period (2002: Nil).

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 tax losses will be utilised in the foreseeable future.

7. DIVIDENDS

No dividends were paid during the period. The directors do not recommend the payment of any interim dividend (2002: Nil).

8. LOSS PER SHARE

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

	For the six months ended 30th September,	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss for the period and loss for the purposes of basic loss per share	(20,248)	(15,972)
Effect of dilutive potential ordinary shares: Interest on convertible bonds/notes	–	–
Loss for the purposes of diluted loss per share	(20,248)	(15,972)
	'000	'000
Weighted average number of ordinary shares for the purposes of basic loss per share <i>(note)</i>	110,751	59,491
Effect of dilutive potential ordinary shares: Options	–	–
Convertible bonds/notes	–	–
Weighted average number of ordinary shares for the purposes of diluted loss per share	110,751	59,491

The computation of diluted loss per share for the six months ended 30th September, 2003 and 2002 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 loss per share for the six months ended 30th September, 2002 have been adjusted for the effect of consolidation of the shares and capital reduction of the Company during the year ended 31st March, 2003.

9. PROPERTY, PLANT AND EQUIPMENT

	Total <i>HK\$'000</i>
Net book value at 1st April, 2003	4,210
Additions	28
Depreciation for the period	(1,022)
Disposals	(465)
Net book value at 30th September, 2003	2,751

10. LOAN RECEIVABLES

	At 30th September, 2003 <i>HK\$'000</i>	At 31st March, 2003 <i>HK\$'000</i>
Secured term loan	21,026	31,135
Unsecured term loans	344	3,971
	21,370	35,106
Less: Amount due within one year shown under current assets	(21,225)	(13,905)
Amount due after one year	145	21,201

- (a) The secured term loan as at 30th September, 2003 represents the loan of US\$2.7 million (equivalent to HK\$21,026,000) secured by the borrower's investments in Hamilton Apex Technology Venture, L.P., a Delaware Limited Partnership formed in California. The loan bears interest at 2% over Hong Kong prime rates and is repayable in one lump sum on 29th September, 2004.
- (b) The unsecured term loans bear average interest at 7% per annum and are repayable within the period from 2003 to 2006.

11. TRADE RECEIVABLES

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

	At 30th September, 2003		At 31st March, 2003	
	Balance (Unaudited) HK\$'000	Percentage (Unaudited)	Balance (Audited) HK\$'000	Percentage (Audited)
Current	20,326	60	25,081	71
Overdue 30 days	9,331	27	5,473	16
Overdue 31 – 60 days	2,569	7	2,136	6
Overdue 61 – 90 days	1,244	4	983	3
Overdue over 90 days	657	2	1,479	4
Total	34,127	100	35,152	100

12. TRADE PAYABLES

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

	At 30th September, 2003		At 31st March, 2003	
	Balance (Unaudited) HK\$'000	Percentage (Unaudited)	Balance (Audited) HK\$'000	Percentage (Audited)
Current to overdue 30 days	27,887	35	31,760	48
Overdue 31 – 60 days	10,826	14	12,948	19
Overdue 61 – 90 days	9,601	12	4,654	7
Overdue over 90 days	30,550	39	16,953	26
Total	78,864	100	66,315	100

13. PROMISSORY NOTE PAYABLE

The promissory note payable of HK\$9 million as at 30th September, 2003 represents the promissory note executed by the Company in favour of Global Med International Limited ("GMI") on 29th August, 2003 ("Promissory Note") upon the acquisition of 21,031,927 issued and fully paid shares of HK\$1.00 each in the capital of Global Med China & Asia Limited.

The Promissory Note bear interest at 9% per annum and will be matured on 29th December, 2003. At any time on or before the maturity date of the Promissory Note, the Company shall have the right to repay the principal and accrued interests by procuring GMI an amount of ordinary shares of the Company with the market value of such ordinary shares being equivalent to the principal plus the accrued interests.

14. BONDS

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 the 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. All the outstanding principal amount and accrued interests of the bonds had been fully settled by the Company prior to the end of November 2003.

15. CONVERTIBLE BONDS

	Convertible Bonds due on 28th June, 2004 (the "CB1") HK\$'000	Convertible Bonds due on 6th November, 2005 (the "CB2") HK\$'000	Total HK\$'000
At 1st April, 2003	–	1,975	1,975
Issued during the period	50,000	–	50,000
Converted during the period	–	(1,045)	(1,045)
At 30th September, 2003	50,000	930	50,930

The CB1 carry interest at 3% per annum payable monthly in arrears with the first interest payment due on 31st July, 2003 and the last interest payment due on 28th June, 2004. Each bond entitles the holder to convert the bond into new shares of the Company at a conversion price, subject to adjustment, of HK\$1.00 per share during the period from 27th June, 2003 to 28th June, 2004. In addition, the Company will have the right to redeem the principal of the bonds at their face value at any time on or prior to the maturity date at its discretion.

The CB2 carry interest at 6% per annum 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\$0.10 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 period, certain holders have converted HK\$1,045,000 convertible bonds into shares of par value HK\$0.10 in the Company.

16. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.10 each	5,000,000,000	500,000
Non-voting preference shares of HK\$10.00 each	100,000,000	1,000,000
At 31st March, 2003 and 30th September, 2003		1,500,000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.10 each		
At 1st April, 2003	100,231,577	10,023
Issue of shares upon exercise of share options	750,000	75
Issue of shares upon conversion of convertible bonds	10,450,000	1,045
At 30th September, 2003		111,431,577

17. CONTINGENT LIABILITIES

As at 30th September, 2003, the Group had contingent liabilities in respect of bills discounted with recourse of approximately HK\$837,000 (31st March, 2003: HK\$1,336,000).

18. RELATED PARTY TRANSACTION

During the period, the Group paid interest on amount due to a related company which bear interest at 12% per annum, amounting to HK\$294,000 (2002: HK\$182,000).

19. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to 30th September, 2003 and up to the date of approval of these financial statements:

- (a) Certain holders of CB1 (see note 15) have converted HK\$30,000,000 convertible bonds and certain holders of CB2 (see note 15) have converted HK\$470,000 convertible bonds into shares of par value HK\$0.10 in the Company and as a result, a total of 34,700,000 new shares in the Company were issued and allotted to respective convertible bond holders.
- (b) Certain option holders have exercised their share options and as a result, a total of 6,750,000 new shares in the Company, at the exercising price of HK\$1.00 each, were issued and allotted to respective option holders.
- (c) Reference is made to the Company's announcement and circular dated 11th July, 2003 and 4th August, 2003 respectively, TechCap Investment Holdings Limited agreed to acquire 35% equity interest in Global United Holdings Limited ("Global United"), at a consideration of approximately HK\$10.5 million, which was satisfied by the way of issue and allotment of 12,300,000 shares in the Company at an issue price of HK\$0.85 per share (the "Acquisition"). Prior to the end of October 2003, 12,300,000 shares in the Company were issued and allotted to the vendor upon the completion of the Acquisition. Global United is a special purpose company incorporated in the British Virgin Islands whose only asset is 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 was accounted for as an associate of the Group after the completion of the transaction.

- (d) Reference is made to the Company's announcement and circular dated 15th October, 2003 and 5th November, 2003 respectively, a conditional subscription agreement was entered into between the Company and Guo Kang Pharmaceutical & Medical Supplies Limited ("Guo Kang") on 30th September, 2003 (the "Subscription Agreement"). Pursuant to the Subscription Agreement, the Company has agreed to issue and allot to Guo Kang and Guo Kang has agreed conditionally to subscribe for an aggregate of 17,000,000 new shares, at a price of HK\$0.85 per share ("Subscription Shares"), totaling HK\$14,450,000, subject to a lock-up period of two years from completion date pursuant to the terms of the Subscription Agreement. Guo Kang is a Hong Kong incorporated company whose equity interest is being held by two individuals in trust of the International Health Cooperation and Exchange Center (衛生部國際交流與合作中心) of the Ministry of Health, the PRC (中華人民共和國衛生部) ("MOH") and also the representative office of the MOH in Hong Kong. As of the date of this report, all the conditions of the Subscription Agreement were satisfied, therefore 17,000,000 shares in the Company were issued and allotted to Guo Kang.
- (e) Reference is made to the Company's announcement dated 17th November, 2003, swissfirst (Lie) Opportunities Anlagegesellschaft AG, Segment Six: Greater Asia Opportunities ("Swiss Fund") has been holding, since 6th November, 2003, 30,000,000 shares in the Company, i.e. approximately 18.16% of the Company's issued share capital as of 17th November, 2003 and become a substantial and the single largest shareholder of the Company. The Company also appointed Mr. LEE Jong-Dae, who was recommended by Swiss Fund, as the Chief Executive Officer of the Company in order to strengthen the management of the Group.
- (f) Reference is made to the Company's announcement dated 8th December, 2003, further to the shareholders' approval of the Company at the special general meeting held on 27th November, 2003, the Company has obtained the certificate of incorporation on the change of name from the Registrar of Companies in Bermuda on 28th November, 2003 and completed all necessary filing procedures with the Registrar of Companies in Hong Kong. The name of the Company has been officially changed from "TechCap Holdings Limited (科達集團(控股)有限公司)" to "China HealthCare Holdings Limited (中國衛生控股有限公司)" with effect from 27th November, 2003. In addition, the English and Chinese stock short name of the Company on the Stock Exchange has been changed from "TECHCAP HOLDING" to "CHINA HEALTH" and "科達集團(控股)" to "中國衛生控股" respectively and have become effective on 11th December, 2003.

- (g) Above subsequent events have significant financial impact on net assets value of the Group. The Directors would, after taking into account for the transactions in (a) to (d) and operating results of the Group subsequent to 30th September, 2003, reiterate that the estimated amount of the Group's net assets value is approximately HK\$94 million as of the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results and Dividends

During the six months ended 30th September, 2003 (the "Period"), the Group recorded a turnover of HK\$133.2 million (2002: HK\$114.7 million) and a loss attributable to shareholders of HK\$20.2 million (2002: HK\$16 million). The basic loss per share for the period was HK\$0.18 (2002: HK\$0.27).

The directors do not recommend the payment of any interim dividend to the shareholders (2002: Nil).

Business Review and Analysis

The unaudited financial results of the Group for the Period reflected a loss of HK\$20.2 million while the figure was a loss of HK\$16 million in the prior same period (the "Prior Period"). The increase in loss was mainly contributed by a sharp decline in gross profit margin in the Group's business of electronic parts.

During the Period, the Group has made efforts in streamlining its business of electronic parts through sub-contracting, which helped increase the Group's turnover by 16.17% to HK\$133.2 million for the Period as compared with the Prior Period. However, the sustained severe conditions in the market squeezed the gross profit margin from 6.4% in the Prior Period to 1.9% for the Period.

During the Period, the Group had successfully controlled the total operating costs by decreasing the total amount by 14.6% from HK\$23.3 million in the Prior Period to HK\$19.9 million for the Period. The Group's finance costs had also decreased by 52% from HK\$2.6 million to HK\$1.25 million for the same corresponding periods.