



GREAT CHINA

GREAT CHINA
HOLDINGS
LIMITED

INTERIM REPORT FOR THE SIX MONTHS ENDED 30TH JUNE, 2001



The directors of Great China Holdings Limited (the “Company”) present the Group’s Interim Report and condensed accounts for the six months ended 30th June 2001. The consolidated results, consolidated cash flow statement and consolidated statement of recognised gains and losses of the Group for the six months ended 30th June 2001, and the consolidated balance sheet as at 30th June 2001 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 5 to 12 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

TRADING OPERATION

The Group’s trading operation suffered a loss of HK\$7,290,000 during the six months ended 30th June, 2001 (six months ended 30th June, 2000: Profit of HK\$15,674,000). The loss was mainly caused by severe competition in fishmeal trading and the situation was further aggravated by the increased shipping cost.

During the period, the Group started importing tapioca, a kind of animal feed ingredient with very high starch content, into mainland China and the results had been satisfactory thus far. Besides exploring the possibilities of importing other animal feed ingredients into China, the Group would also study the opportunities of exporting certain commodities produced in mainland China.

It is expected that the performance of the Group’s fishmeal trading would improve in the second half of the year when some of the less competitive traders are driven out by the cut throat competition.

PROPERTY INVESTMENT IN HONG KONG

The Group continued to receive stable rental income from its Hong Kong investment properties which comprised mainly of retail shops. Although the interest rate had been reduced several times during the period, there had not been any significant improvement in the capital value of the Hong Kong investment properties as the local investment sentiment was dampened by the gloomy economic outlook in the United States.

PROPERTY INVESTMENT IN MAINLAND CHINA

In relation to the enforcement of the Arbitration Award (the “Award”) granted to the Group against the defaulting parties in a joint venture development project in Shanghai (the “Project”), the Shanghai Court ordered certain floors of the Project with a gross floor area of about 16,000 square meters (the “auctioned Property”) to be sold via public auction. As reported previously, the Group participated in the auction and secured the auctioned Property at RMB55 million. The Group paid certain disbursement and settled the outstanding purchase price by way of a set-off against the outstanding amount under the Award.

The Group had taken possession of the auctioned Property during the period and is taking steps to complete the transfer of the legal title. It is the Group's intention to re-package and sell the auctioned Property on a strata title basis upon completion of all formality in connection with the transfer of the legal title.

The Group is entitled to take further action to freeze further assets owned by the defaulting parties to recover the remaining balance under the Award. The Group is currently trying to arrange with the defaulting parties for an acceptable arrangement to recover the remaining balance under the Award.

REAL ESTATE AGENCY SERVICES IN MAINLAND CHINA

During the six months ended 30th June, 2001, the loss from the real estate agency operation was reduced to HK\$1,858,000 (six months ended 30th June, 2000: HK\$3,747,000) as the effect of the down sizing in the Group's real estate agency operation began to be felt.

STRATEGIC OUTLOOK

The Group would continue to concentrate its effort on its core businesses, namely property investment and trading in feed and grain. The accession of China into the World Trade Organization would pose new challenge to the Group's trading business which has been carried out mainly with buyers in mainland China. The Group will continue to consolidate its market position in mainland China and is confident that its trading performance would improve in the second half of the year. With respect to the Group's property investment activities, the Group will be focusing on Shanghai.

Liquidity and financial resources

The long term liabilities of the Group amounted to approximately 33% (31.12.2000: 29%) of its shareholders' fund as at 30th June 2001. The current ratio of the Group was maintained at 1.09 (31.12.2000: 1.06).

The Group's borrowings were mainly denominated in Hong Kong Dollars and the United States Dollars. As at 30th June 2001, cash and bank balances of HK\$81,406,000 (31.12.2000: HK\$39,850,000) and, certain land and buildings with aggregate net book value of HK\$492,166,649 (31.12.2000: HK\$481,704,000) were pledged to banks to secure banking facilities to the extent of approximately HK\$451,134,000 (31.12.2000: HK\$415,333,000). The aggregate amount of bank facilities available but not yet utilised by the Group was about HK\$84,640,000 (31.12.2000: HK\$81,000,000) as at 30th June 2001.

Since the Group usually conducts its business transactions in Hong Kong Dollars and the United States Dollars, there is seldom the need to make use of financial instruments for hedging purposes.

Employees and Remuneration policies

As at 30th June, 2001, the total number of employees of the Group was about 135 with staff cost amounting to approximately HK\$6,200,000 (six months ended 30th June, 2000: HK\$7,527,000). Remuneration policies are reviewed annually by the management. Remuneration packages, including share options, are structured to take into account the comparable level of the market.

Pursuant to the Employees Share Option Scheme approved by the shareholders on 29th March, 1993, the Group had granted 12,180,000 share options to the directors and employees at an exercise price of HK\$0.94 per share which can be exercised between 2nd September, 1993 to 1st September, 2003.

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 30th June, 2001, the interests of directors in the securities of the Company and its associated corporations as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as notified to the Company were as follows:

Ordinary Shares of the Company

Directors	Number of shares held				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Rustom Ho Ming Yu	—	—	138,347,288*	—	138,347,288
Mr. John Ho Ming Tak	—	600,000	138,347,288*	—	138,947,288
Mr. Story Chan Che Sum	42,000	—	—	—	42,000

* *By virtue of the SDI Ordinance, both Mr. Rustom Ho Ming Yu and Mr. John Ho Ming Tak are deemed to have interest in the 138,347,288 shares held by Fulcrest Limited. Interests in the same share have been disclosed by Fulcrest Limited and others as substantial shareholders.*

Outstanding Options of the Company

Directors	Number of shares under options granted held under personal interests
Mr. Rustom Ho Ming Yu	6,000,000
Mr. John Ho Ming Tak	6,000,000

The options were granted under the Employees Share Option Scheme approved by the shareholders on 29th March, 1993. The options are exercisable at HK\$0.94 per share at any time prior to 1st September, 2003.

Apart from the share option scheme mentioned above, none of the director (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meaning of the SDI Ordinance).

SUBSTANTIAL SHAREHOLDERS

At 30th June, 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had been notified of the following substantial shareholders' interests, other than interests of directors disclosed above, amounting to 10% or more of the issued share capital of the Company:

Ordinary Shares of the Company

Substantial shareholders	Number of shares held	
	Direct interest	Deemed interest
Fulcrest Limited	138,347,288	—
Raynor Holdings Limited	—	138,347,288
Seward Holdings Corp.	—	138,347,288
Asian Pacific Investment Corporation	—	138,347,288
Kwong Fong Holdings Limited	710,000	138,347,288
Kwong Fong Industries Corporation	8,680,000	139,057,288
Top Glory Holding Company Limited	45,058,000	—

PURCHASE, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of shares in the Company during the period.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors is aware of any information that would reasonably indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the six months ended 30th June 2001.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30th June 2001 with the directors.

On behalf of the Board
John Ho Ming Tak
Managing Director

Hong Kong, 18th September, 2001

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June 2001

		Unaudited	
		Six months ended	
		30th June	
		2001	2000
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	475,693	588,881
Cost of sales		<u>(410,616)</u>	<u>(510,336)</u>
Gross profit		65,077	78,545
Other revenues		1,463	2,664
Selling expenses		(56,507)	(61,244)
Administration expenses		(15,300)	(17,539)
Other net operating (expenses)/income	3	<u>(10,408)</u>	<u>2,490</u>
Operating (loss)/profit	2,3	(15,675)	4,916
Finance costs		<u>(12,050)</u>	<u>(15,334)</u>
		(27,725)	(10,418)
Share of profits of associated companies		<u>2,027</u>	<u>2,334</u>
Loss before taxation		(25,698)	(8,084)
Taxation credit/(charge)	4	<u>119</u>	<u>(824)</u>
Loss after taxation		(25,579)	(8,908)
Minority interests		<u>269</u>	<u>(334)</u>
Loss attributable to shareholders		<u><u>(25,310)</u></u>	<u><u>(9,242)</u></u>
Dividend		<u><u>—</u></u>	<u><u>—</u></u>
Basic loss per share (<i>cents</i>)	5	<u><u>(9.67)</u></u>	<u><u>(3.53)</u></u>

CONDENSED CONSOLIDATED BALANCE SHEETS

As at 30th June 2001

		Unaudited 30th June 2001 HK\$'000	Audited 31st December 2000 HK\$'000
	<i>Notes</i>		
Non-current assets			
Fixed assets		499,776	519,556
Interests in associated companies		143,579	142,856
Long term investments		3,221	3,221
		<u>646,576</u>	<u>665,633</u>
Current assets			
Moter vessels pending disposal under discontinued operation		—	21,262
Deposits receivable	6	72,964	72,964
Inventories		40,947	2,325
Accounts receivable and prepayments	7	35,301	85,135
Bank balances, pledged		81,406	39,850
Cash and bank balances		14,931	22,028
		<u>245,549</u>	<u>243,564</u>
Current liabilities			
Rental deposits received		4,804	5,027
Accounts payable and accrued expenses	8	93,855	89,390
Taxation payable		901	1,732
Trust receipt loans		90,068	70,477
Bank loans, secured — current portion	9	36,290	62,899
		<u>225,918</u>	<u>229,525</u>
Net current assets		<u>19,631</u>	<u>14,039</u>
Total assets less current liabilities		<u>666,207</u>	<u>679,672</u>
Financed by:			
Share capital		52,337	52,337
Reserves		449,528	474,827
Shareholders' funds		501,865	527,164
Minority interests		1,711	1,980
Advance from a minority shareholder		9,450	9,450
Bank loans, secured — non-current portion	9	153,181	141,078
		<u>666,207</u>	<u>679,672</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2001

	Unaudited <i>HK\$'000</i>
Net cash inflow from operating activities	<u>10,472</u>
Net cash outflow from returns on investments and servicing of finance	<u>(10,814)</u>
Total tax paid	<u>(592)</u>
Net cash inflow from investing activities	<u>30,312</u>
Net cash outflow from financing	<u>(14,506)</u>
Net change in bank deposits pledged	<u><u>(41,556)</u></u>
Decrease in cash and cash equivalents	(26,684)
Cash and cash equivalent at 1st January 2001	(48,449)
Effect of foreign exchange rate changes	<u>(4)</u>
Cash and cash equivalent at 30th June 2001	<u><u>(75,137)</u></u>
Analysis of the balances of cash and cash equivalents:	
Cash and bank balances	14,931
Advances from banks repayable within three months	<u>(90,068)</u>
	<u><u>(75,137)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the six months ended 30th June 2001

	Unaudited	
	Six months ended	
	30th June	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Exchange differences arising on translation of subsidiaries and associated companies	11	(74)
Loss for the period	<u>(25,310)</u>	<u>(9,242)</u>
Total recognised losses	<u><u>(25,299)</u></u>	<u><u>(9,316)</u></u>

Notes to condensed interim accounts

1. Principal accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim financial reporting”, issued by the Hong Kong Society of Accountants and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”), except that as allowed under the said Appendix 16, no comparative figures are required to be presented for the first condensed consolidated cash flow statement.

These condensed interim accounts should be read in conjunction with the 2000 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2000 except that the Group has adopted SSAP 26 “Segment reporting” and SSAP 30 “Business combinations” which are effective for accounting periods commencing on or after 1st January 2001. The changes to the Group’s accounting policies of adopting these new SSAPs are set out below:

(a) SSAP 26 “Segment reporting”

In note 2 of these condensed interim accounts, the Group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group’s internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Comparative information has been given.

(b) SSAP 30 “Business combinations”

Negative goodwill represents the excess of the fair value of the Group’s share of the net assets acquired over the cost of acquisition. For acquisitions after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group’s plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those assets is recognised in the income statement immediately. For acquisitions prior to 1st January 2001, negative goodwill was taken directly to reserves arising on consolidation. The Group has taken advantage of the transitional provisions in SSAP 30 and such negative goodwill will not be restated.

2. Turnover and segment information

The principal activities of the Group are general trading, property investment and real estate agency services.

An analysis of the Group's turnover and contribution to operating (loss)/profit for the period by business segments is as follows:

	TURNOVER		OPERATING	
	Unaudited		(LOSS)/PROFIT	
	Six months ended		Six months ended	
	30th June		30th June	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
General trading	461,982	555,189	(7,290)	15,674
Property investment	13,036	11,086	10,042	8,862
Real estate agency services	675	1,131	(1,858)	(3,747)
Ship chartering	—	21,475	—	(12,944)
Other operations	—	—	(9,559)	4,599
	<u>475,693</u>	<u>588,881</u>	<u>(8,665)</u>	<u>12,444</u>
Less: Unallocated administration expenses			<u>(7,010)</u>	<u>(7,528)</u>
			<u>(15,675)</u>	<u>4,916</u>

An analysis of the Group's turnover and contribution to operating (loss)/profit for the period by geographical segments is as follows:

	TURNOVER		OPERATING	
	Unaudited		(LOSS)/PROFIT	
	Six months ended		Six months ended	
	30th June		30th June	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	8,819	7,469	(2,320)	11,402
Mainland China	404,492	453,052	(5,453)	10,955
Phillippines	59,487	106,321	(1,144)	2,917
Others	2,895	22,039	252	(12,830)
	<u>475,693</u>	<u>588,881</u>	<u>(8,665)</u>	<u>12,444</u>
Less: Unallocated administration expenses			<u>(7,010)</u>	<u>(7,528)</u>
			<u>(15,675)</u>	<u>4,916</u>

3. Operating (loss)/profit

	Unaudited Six months ended 30th June	
	2001 HK\$'000	2000 HK\$'000
Operating (loss)/profit is stated after crediting and charging the following:		
Crediting		
Gain on disposal of investment securities	<u>—</u>	<u>3,014</u>
Charging		
Depreciation of fixed assets	1,218	1,574
Write down of land and building to recoverable amount	<u>10,761</u>	<u>—</u>

4. Taxation credit/(charge)

No provision for Hong Kong profits tax has been made in the accounts as the companies within the Group have no assessable profit for the current period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation credited/(charged) to the consolidated profit and loss account represents:

	Unaudited Six months ended 30th June	
	2001 HK\$'000	2000 HK\$'000
Hong Kong taxation-over provision in prior periods	435	—
Overseas taxation-current	<u>(196)</u>	<u>(434)</u>
	239	(434)
Share of taxation attributable to an associated company	<u>(120)</u>	<u>(390)</u>
	<u>119</u>	<u>(824)</u>

5. Loss per share

Loss per share is calculated based on the loss attributable to shareholders of the Group for the six months ended 30.6.2001 of HK\$25,310,000 (six months ended 30.6.2000: HK\$9,242,000) and 261,684,910 shares (30.6.2000: 261,684,910 shares) of the Company in issue during the period.

No diluted loss per share has been presented for current period and prior period because the exercise of the outstanding potential ordinary shares would have anti-dilutive effect for the period.

6. Deposits receivable

	Unaudited 30th June 2001 HK\$'000	Audited 31st December 2000 HK\$'000
Deposits on a property held for resale (<i>Note (a)</i>)	54,919	54,919
Deposits recoverable under an arbitration award (<i>Note(b)</i>)	<u>18,045</u>	<u>18,045</u>
	<u><u>72,964</u></u>	<u><u>72,964</u></u>

- (a) In relation to the enforcement of the Arbitration Award (the "Award") granted to the Group against the defaulting parties in a joint venture development project in Shanghai (the "Project") the Shanghai Court ordered certain floors of the Project with a gross floor area of about 16,000 square meters (the "auctioned Property") to be sold via public auction. To speed up the enforcement, the Group participated in the auction and submitted a bid of HK\$52 million, and obtained the auctioned Property. The total cost for the auctioned Property was about HK\$55 million which included HK\$3 million commission fee paid for the auction. The bid price was allowed by the Court to set off against the outstanding amount under the Award. As the registration of legal title has not yet been completed, the amount is, therefore, included in deposits receivable.
- (b) The Group is entitled to recover the remaining outstanding balance and the court handling fee of HK\$5 million totalling HK\$18 million plus interest accrued under the Award as at 30th June, 2001. The Group is entitled to take further action to freeze further assets owned by the defaulting parties to recover the remaining balance under the Award. The Group is currently trying to arrange with the defaulting parties for an acceptable arrangement to recover the remaining balance under the Award.

7. Accounts receivable and prepayments

The majority of the Group's turnover is on letter of credit or documents against payment. Included in accounts receivable and prepayments are trade and bills receivables. The analysis was as follows:

	Unaudited 30.6.2001 HK\$'000	Audited 31.12.2000 HK\$'000
Current	20,949	65,609
30 - 60 days	249	8,060
60 - 90 days	232	51
Over 90 days	<u>6,810</u>	<u>3,553</u>
	<u><u>28,240</u></u>	<u><u>77,273</u></u>

8. Accounts payable and accruals

Included in accounts payable and accruals are bills payable of HK\$79,933,000 (31.12.2000: HK\$63,820,000) which are all current in nature.

9. Bank loans, secured

	Unaudited 30th June 2001 HK\$'000	Audited 31st December 2000 HK\$'000
Secured bank loans	189,471	203,977
Current portion of secured bank loans	<u>(36,290)</u>	<u>(62,899)</u>
	<u>153,181</u>	<u>141,078</u>

At 30th June 2001, the Group's bank loans were repayable as follows:

	Unaudited 30th June 2001 HK\$	Audited 31st December 2000 HK\$
Within one year	36,290	62,899
In the second year	39,364	37,426
In the third to fifth year	57,313	40,208
After the fifth year	<u>56,504</u>	<u>63,444</u>
	<u>189,471</u>	<u>203,977</u>

10. Contingent liabilities

	Unaudited 30th June 2001 HK\$'000	Audited 31st December 2000 HK\$'000
Bills discounted with recourse	<u>—</u>	<u>15,796</u>

At 30th June 2001, the Group had contingent liabilities in respect of a legal claim lodged against a subsidiary company. The maximum liability of the Group as at 30th June 2001 was estimated to be about HK\$9,300,000 (31.12.2000: HK\$9,300,000). The directors, based on the advice of the Group's legal advisor, considered that the Group had good defence against the alleged claim and accordingly no provision has been made in the accounts for the legal claim.

11. Comparatives

Comparative figures of turnover, cost of sales and other net operating (expenses)/income have been reclassified to conform with current period's presentation.