



大 中 華 科 技 控 股 有 限 公 司
GREATER CHINA SCI-TECH HOLDINGS LTD.
(Incorporated in Bermuda with Limited Liability)



Second Interim Report 2001

Management Discussion and Analysis

The Board of Directors (“Directors”) of Greater China Sci-Tech Holdings Limited (the “Company”) are pleased to announce the unaudited consolidated financial statements of the Company and its subsidiaries (the “Group”) for the twelve months ended June 30, 2001. These interim financial statements have been reviewed by the Audit Committee of the Company.

Review of the Group’s Operation

For the twelve months ended June 30, 2001, the Group recorded a turnover and a profit of HK\$63 million and HK\$80 million respectively, representing an increase of 27% and an improvement of 172% respectively, which were contributed mainly from the operation of Royal Treasure Industrial Company Limited (“Royal Treasure”) and the profit on disposal of certain subsidiaries during the period.

Royal Treasure was established during the period in view of the ongoing financial and restructuring difficulties involving Pam & Frank Industrial Company Limited (“PFIL”), a former subsidiary which ceased operation and was disposed during the period, to continue, improve and carry out the Group’s then existing line of principal businesses. Royal Treasure is principally engaged in the procurement of raw materials, manufacture through sub-contractors and the sale of finished products. (including handbags, briefcases and golf bags, etc.) The products procured by Royal Treasure are targeted at a higher quality end of the market than those products procured by PFIL. Royal Treasure had recorded a turnover of HK\$44 million during the period.

During the period, an independent secured creditor had exercised its power of sale over all shares of Pam & Frank International Company Limited (“PFIC”) and several other subsidiaries. PFIC was a wholly owned subsidiary of the Company and the immediate holding company of PFIL. Profit arising from such disposal was HK\$120 million.

Management Discussion and Analysis *(Continued)*

Liquidity and Financial Resources and Capital Structure

Net liabilities and net current liabilities of the Group have been reduced from HK\$336 million to HK\$69 million and from HK\$451 million to HK\$157 million respectively during the period. The Company has successfully placed total of 1,362 million new shares of the Company during the period which raised total net proceeds of HK\$184 million. The proceeds were used to repay substantial amount of liabilities of the Company and for the general working capital of the Group.

Subsequent to the balance sheet date, the Company has completed placement of 1,700 million and 300 million new shares of the Company with Power Chain Technology Limited (“Power Chain”) and Glory Time (H.K.) Limited (“Glory Time”) respectively which raised total net proceeds of HK\$229 million. Such equity finance raised will turn the net liabilities and the net current liabilities into net assets and net current assets respectively.

At the balance sheet date the Group had bank and other loans of HK\$71 million. All those borrowings were made in previous years. Borrowings were secured by the landed properties and other assets of the Group.

As borrowings, sales and purchases are denominated in Hong Kong Dollar and United States Dollar, the exposure to fluctuation in foreign exchange rates is minimal.

Number and Remuneration of Employees

The Group has approximately 20 employees. Remunerations are based on the experience and the performance of employees. The Group also provides mandatory provident fund and medical insurance plan to the employees. During the period, certain employees of the Group have been granted share options.

Management Discussion and Analysis *(Continued)*

The Group's Future Direction

Leveraging upon the strength of its shareholders and management, the primary objective of the Company is to develop itself into cross straits regional listed flagship for economic and technology exchange and cooperation, with focus on technology and franchise assets such as technology patents / infrastructures and privileged business franchises, etc.; financial assets such as listed securities and pre-IPO equity stakes etc. as well as providing financial services in relation to technology and franchise businesses. The core business developing strategy of the Company is to create synergy of technology, finance and its regional connection systematically, and quickly magnify the effect of synergy in both local and global capital markets and bring its shareholders capital gain.

Generally speaking, in terms of business model the Company will focus on high entry barrier businesses by taking calculated exposure on technology patents in Taiwan and privileged and developed franchises in China for underlying businesses, while sourcing technology and management expertise globally, the Company aims to play a significant role in substantially upgrading such franchise in China by transplanting advanced technology and management; introducing necessary capital injection and providing tailor-made financial services, and get such franchises ready for capital market spin-off.

In executing its core business developing strategy, before taking any exposure the Company attaches paramount importance on conducting careful and thorough analysis on risk / return / profile including risk of market, regulation, counter-party credit, liquidity and settlement / documentation. The Company is in the process of considering three opportunities in line with what is described above.

On Behalf of the Board
Dr. Li Zhong Yuan
Managing Director

Hong Kong, September 25, 2001

Additional Information Required by the Listing Rules

Purchase, Sale or Redemption of the Company's Listed Securities

During the twelve months ended June 30, 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Directors' Interests in Securities

At June 30, 2001, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") and in the share options of the Company were as follows:

(i) *Shares*

Name of director	Nature of interest	Number of shares
Mr. Yang Hung Yu, William	Personal	3,470,000
Mr. Yang Hung Yu, William, Ms. Zuo Xian Jue and Ms. Tsui Lai Ping (<i>note 1</i>)	Corporate	130,000,000

Note:

- (1) At June 30, 2001, Hoi Fat International Limited ("Hoi Fat") held 130,000,000 shares of the Company. Hoi Fat is owned as to 52% by Everbloom Investment Inc. ("Everbloom"), as to 38% by Eastland Overseas Corp. Ltd. ("Eastland") and as to the remaining 10% by Mr. Yang Hung Yu, William directly. Everbloom is a family trust company of Mr. Yang Hung Yu, William. Eastland is owned as to 60% by Ms. Zuo Xian Jue and as to 40% by Ms. Tsui Lai Ping.

Additional Information Required by the Listing Rules

(Continued)

(ii) Share Options

The directors had personal interests in share options to subscribe for shares in the Company as follows:

Name of director	Number of share options granted			At June 30, 2001
	At July 1, 2000	Granted	Exercised	
Exercise price of HK\$0.10 per share, exercisable from July 25, 2000 to July 24, 2002				
Mr. Yang Hung Yu, William	9,000,000	-	9,000,000	-
Ms. Zuo Xian Jue	3,000,000	-	-	3,000,000
Ms. Tsui Lai Ping	1,500,000	-	1,500,000	-
Mr. Liu Ming Hui	3,000,000	-	3,000,000	-
Exercise price of HK\$0.16 per share, exercisable from July 9, 2001 to August 23, 2002				
Dr. Li Zhong Yuan	-	45,000,000	-	45,000,000
Mr. Kuo Heng-fuu	-	40,000,000	-	40,000,000
Mr. Wong Chong Kwong, Derek	-	45,000,000	-	45,000,000
Mr. Tan Lu Sheng	-	5,000,000	-	5,000,000
Mr. Chun Jay	-	1,000,000	-	1,000,000
Mr. Liu Ming Hui	-	7,000,000	-	7,000,000

Substantial Shareholders

The register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more in the issued share capital of the Company as at June 30, 2001.

Code of Best Practice

The Company has complied throughout the twelve months ended June 30, 2001 with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that (i) the non-executive directors of the Company were not appointed for a specific term but subject to retirement and re-election in accordance with the Company's bye-laws; and (ii) the guidelines set out in paragraph 14 of the Code were not complied with until the formation of an Audit Committee, which comprises of two independent non-executive directors, on September 18, 2000 after the appointment of the independent non-executive directors.

Condensed Consolidated Income Statement

For the twelve months ended June 30, 2001

		Twelve months ended June 30, 2001 (unaudited) HK\$'000	June 30, 2000 (audited) HK\$'000
	<i>Notes</i>		
Turnover	4	63,699	50,114
Cost of sales		(61,378)	(51,300)
Gross profit (loss)	4	2,321	(1,186)
Other revenue		152	7,229
Selling and marketing expenses		(613)	(8,554)
Administrative expenses		(31,065)	(53,166)
Waiver of short term loan		10,162	-
Provision for doubtful debts		(3,404)	-
Profit on disposal of subsidiaries		120,057	-
Provision for legal claims		-	(37,208)
Profit (loss) from operations		97,610	(92,885)
Finance costs		(19,106)	(27,033)
Profit (loss) before taxation		78,504	(119,918)
Taxation	6	(221)	6,108
Profit (loss) before minority interests		78,283	(113,810)
Minority interests		1,849	2,500
Profit (loss) for the period		80,132	(111,310)
		<i>HK Cents</i>	<i>HK Cents</i>
Earnings (loss) per share	7		
– Basic		4.6	(10.6)
– Diluted		4.4	N/A

There were no recognised gains or losses other than the profit (loss) for the period.

Condensed Consolidated Balance Sheet

At June 30, 2001

	Notes	June 30, 2001 (unaudited) HK\$'000	June 30, 2000 (audited) HK\$'000
Non-Current Assets			
Property, plant and equipment	8	109,765	113,878
Interest in associates		–	11,862
Investment securities		4,813	16,676
		114,578	142,416
Current Assets			
Inventories		762	624
Debtors and bills receivable	9	13,312	5,807
Amount due from a shareholder		–	29,199
Prepayments and deposits		7,634	3,565
Trading securities		1,867	–
Bank balances and cash		15,774	1,385
		39,349	40,580
Current Liabilities			
Creditors, bills payable and accrued charges	10	124,153	228,125
Amounts due to related companies		–	3,885
Amount due to an associate		–	17,790
Amount due to a shareholder		57,211	92,499
Taxation		1,786	31,480
Convertible bond		–	20,000
Bank loans		4,522	4,522
Short term loans		8,635	92,907
Obligations under finance leases – due within one year		265	–
		196,572	491,208
Net Current Liabilities		(157,223)	(450,628)
		(42,645)	(308,212)
Capital and Reserves			
Share capital	11	244,426	105,189
Reserves	12	(313,044)	(440,958)
Deficiency in shareholders' funds		(68,618)	(335,769)
Minority interests		25,708	27,557
Non-Current Liability			
Obligations under finance leases – due after one year		265	–
		(42,645)	(308,212)

Condensed Consolidated Cash Flow Statement

For the twelve months ended June 30, 2001

	Twelve months ended June 30, 2001 (unaudited) HK\$'000	June 30, 2000 (audited) HK\$'000
Net cash outflow from operating activities	(64,334)	(3,236)
Net cash outflow from returns on investments and servicing of finance	(19,015)	(18,864)
Net cash inflow from taxation	-	3,326
Net cash (outflow) inflow from investing activities	(915)	34
Net cash outflow before financing	(84,264)	(18,740)
Net cash inflow from financing	100,520	18,106
Increase (decrease) in cash and cash equivalents	16,256	(634)
Non-cash transaction Assignment of bank loans and accrued interest to a third party	-	63,939
Cash and cash equivalents at the beginning of period	(3,137)	(66,442)
Cash and cash equivalents at the end of of period	13,119	(3,137)

Notes to Condensed Financial Statements

For the twelve months ended June 30, 2001

1. Change of Year End Date

During the period, the Company changed its financial year end date from June 30 to December 31. As a result, the Company issues this second interim report for the twelve months ended June 30, 2001.

2. Basis of Preparation of Financial Statements

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Company and the Group. The Group had net current liabilities and net liabilities of approximately HK\$157 million and HK\$69 million respectively at that date.

Subsequent to the balance sheet date, the placing agreement made between the Company, Power Chain Technology Limited ("Power Chain") and Glory Time (H.K.) Limited ("Glory Time") for the subscription of 1,500,000,000 new shares of the Company at HK\$0.10 each for cash has been approved by the shareholders and completed in July 2001. Moreover, the Company has completed another placement of shares with Power Chain for the subscription of 500,000,000 new shares of the Company at HK\$0.163 each for cash in August 2001. Total net proceeds of those placements of shares were approximately HK\$229 million. Therefore the directors consider that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on the going concern basis.

3. Accounting Policies

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 (SSAP 25) "Interim Reporting" issued by the Hong Kong Society of Accountants. The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended June 30, 2000.

Notes to Condensed Financial Statements (Continued)

4. Segment Information

By principal activity:

	Twelve months ended			
	June 30, 2001		June 30, 2000	
	Revenue	Contribution	Revenue	Contribution
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Manufacture and trade of cut and sew products, plastic items and porcelain products	55,893	2,408	50,114	(1,186)
Sales of trading securities	7,806	(87)	-	-
	<u>63,699</u>	<u>2,321</u>	<u>50,114</u>	<u>(1,186)</u>

By geographical market:

	Twelve months ended			
	June 30, 2001		June 30, 2000	
	Revenue	Contribution	Revenue	Contribution
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
United States of America	14,269	(861)	44,124	(666)
Hong Kong	46,955	3,132	-	-
Other countries	2,475	50	5,990	(520)
	<u>63,699</u>	<u>2,321</u>	<u>50,114</u>	<u>(1,186)</u>

5. Depreciation

During the period, depreciation of HK\$5 million (2000: HK\$9 million) was charged in respect of the Group's property, plant and equipment.

Notes to Condensed Financial Statements (Continued)

6. Taxation

Taxation represents provision for Hong Kong Profits Tax on the estimated assessable profits arising in Hong Kong during the period.

7. Earnings (Loss) Per Share

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

	Twelve months ended	
	June 30, 2001	June 30, 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings		
Earnings for the purposes of basic and diluted earnings per share		
(Profit (loss) for the period)	<u>80,132</u>	<u>(111,310)</u>
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	1,728,077	<u>1,051,887</u>
Effect of dilutive share options	<u>101,319</u>	
Weighted average number of shares for the purpose of diluted earnings per share	<u>1,829,396</u>	

8. Additions to Property, Plant and Equipment

During the period, the Group spent approximately HK\$1 million (2000: nil) in respect of property, plant and equipment.

Notes to Condensed Financial Statements (Continued)

9. Debtors and Bills Receivable

The Group allows an average credit period of 90 days to its trade customers.

The following is an aged analysis of debtors and bills receivable of the Group at the balance sheet date:

	June 30, 2001	June 30, 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-60 days	10,659	4,757
61-90 days	2,653	578
Over 90 days	–	472
	<u>13,312</u>	<u>5,807</u>

10. Creditors, Bills Payable and Accrued Charges

The following is an aged analysis of creditors, bills payable and accrued charges of the Group at the balance sheet date:

	June 30, 2001	June 30, 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-60 days	11,039	19,790
61-90 days	21	5,531
Over 90 days	113,093	202,804
	<u>124,153</u>	<u>228,125</u>

Notes to Condensed Financial Statements (Continued)

11. Share Capital

	Number of shares <i>'000</i>	Nominal amount <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
Authorised:		
At June 30, 2000	3,000,000	300,000
Increase in authorised share capital	<u>3,000,000</u>	<u>300,000</u>
At June 30, 2001	<u>6,000,000</u>	<u>600,000</u>
Issued and fully paid		
At June 30, 2000	1,051,887	105,189
Exercise of share options	30,000	3,000
Placement of shares during the period	<u>1,362,370</u>	<u>136,237</u>
At June 30, 2001	<u>2,444,257</u>	<u>244,426</u>

At June 30, 2001, the outstanding share options under the share option scheme effective on August 24, 1992 were as follows:

Exercisable period	Exercise price per share	Number of share options outstanding at June 30, 2001
July 25, 2000		
– July 24, 2002	HK\$0.10	27,000,000
July 9, 2001		
– August 23, 2002	HK\$0.16	<u>156,800,000</u>
		<u>183,800,000</u>

Notes to Condensed Financial Statements (Continued)

12. Reserves

	Share Premium HK\$'000	Capital Reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
At June 30, 2000	284,096	293	(725,347)	(440,958)
Premium on issue of shares	57,050	–	–	57,050
Share issue expenses	(9,268)	–	–	(9,268)
Profit for the period	–	–	80,132	80,132
	<u>331,878</u>	<u>293</u>	<u>(645,215)</u>	<u>(313,044)</u>
At June 30, 2001	<u>331,878</u>	<u>293</u>	<u>(645,215)</u>	<u>(313,044)</u>

13. Contingent Liabilities

	June 30, 2001 HK\$'000	June 30, 2000 HK\$'000
Guaranteed profit payments to PRC joint venture partners of the Group (note a)	24,400	24,400
Claims from ex-employees of a former subsidiary (note b)	<u>3,249</u>	<u>–</u>

- a. The Group agreed with certain PRC joint venture partners of the Group to make guaranteed profit payments in return for the exclusive right to control those PRC joint venture companies. As at June 30, 2001 cumulative guaranteed profit obligations of HK\$24,400,000 (2000: HK\$24,400,000) incurred up to March 31, 1996 have not been provided for in the financial statements because the Group's joint venture partners have agreed to waive their entitlement to such payments up to March 31, 1996. Legal advice had been obtained by the Group in prior years in respect of the original guaranteed profit payments agreement and the subsequent waiver but there remains doubt as to the validity and enforceability of both the original guaranteed profit payments agreement and the subsequent waiver. However the directors consider that all parties have acted in good faith and there is now no intention on any side that guaranteed profit payments will be made. Accordingly, no provision for guaranteed profit payments incurred up to March 31, 1996 have been made in the financial statements.

Notes to Condensed Financial Statements (Continued)

13. Contingent Liabilities (Continued)

- b. Subsequent to the balance sheet date, an independent third party has provided the ex-employees with certain shares of the Company in consideration of the ex-employees agreeing to withdraw their claims against the Group.

14. Capital Commitments

	June 30, 2001	June 30, 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided for in the financial statements	<u>2,755</u>	<u>2,755</u>
Capital contribution to a long term investment	<u>6,348</u>	<u>6,348</u>

15. Operating Lease Commitments

At June 30, 2001, the Group had outstanding commitments under non-cancellable operating leases payable in the following year in respect of rented premises as follows:

	June 30, 2001	June 30, 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating leases which expire:		
– in the second to fifth year inclusive	<u>–</u>	<u>1,354</u>

Notes to Condensed Financial Statements (Continued)

16. Post Balance Sheet Events

Subsequent to the balance sheet date, the placing agreement made between the Company, Power Chain and Glory Time for the subscription of 1,500,000,000 new shares of the Company at HK\$0.10 each for cash has been approved by the shareholders and completed in July 2001. Moreover, the Company has completed another placement of shares with Power Chain for the subscription of 500,000,000 new shares of the Company at HK\$0.163 each for cash in August 2001. Total net proceeds of those placement of shares were approximately HK\$229 million.

17. Disposal of Subsidiaries

On February 8, 2001 and March 31, 2001, an independent secured creditor had exercised its power of sale over all shares of Pam & Frank International Company Limited ("PFIC"), Pam & Frank Pacific Company Limited, Pam & Frank Licensing Company Limited, Pam & Frank (China) Development Company Limited. All those companies were wholly owned subsidiaries of the Company. PFIC was the immediate holding company of Pam & Frank Industrial Company Limited. The shares were sold to several independent third parties for a total consideration of HK\$0.3 million.

The following summarises the effect of the disposal:

	<i>HK\$'000</i>
Net liabilities disposed	(119,737)
Profit on disposal of subsidiaries	<u>120,057</u>
Consideration satisfied by deduction of short term loan balance	<u><u>320</u></u>

The results of the disposed subsidiaries for the interim reporting period were as follows:

	<i>HK\$'000</i>
Turnover	<u>12,202</u>
Loss before taxation	(8,261)
Taxation	<u>-</u>
Loss for the period	<u><u>(8,261)</u></u>