

## Chairman's Statement

The year 2001 marked a milestone for Greater China Sci-Tech Holdings Limited ("GCST or the Group"). After entering into a securities exchange agreement with Hai Xia Holdings Limited ("Hai Xia") on November 22, 2001, the Group has introduced on board a new shareholder. The move represents the turning of a new page in the development of the Group.

According to the securities exchange agreement, Hai Xia agreed to subscribe for GCST shares at a price of HK\$0.10 each in consideration of the issue by Hai Xia to GCST of the New Hai Xia shares at HK\$0.60 each. These securities exchange serve to facilitate the exploration of business opportunities by the Group with a special focus in the cross strait business sector. With the new shareholder and management in place, a more prudent and pragmatic management style has been adopted and the Group has undergone restructuring and consolidation during the year.

### Financial Review

As a result of persistence and hard work, the Group recorded a loss attributable to shareholders of HK\$1.3 million for the period from July 1, 2000 to December 31, 2001, substantially reduced as compared to the loss of HK\$111.3 million in the previous year. Consolidated turnover was HK\$202.6 million representing an increase of 304% as compared to previous year. The increase was mainly attributable to the revenue from sale of trading securities amounted to 115.5 million.

The Directors do not recommend the payment of a dividend in respect of the period ended December 31, 2001. (2000: Nil).

### Business Review

#### Operational Restructuring

During the year, the group restructured its operation by establishing the Royal Treasure Industrial Limited ("Royal Treasure"), which is engaged in the trading of handbags. Positioned to capture the higher end market, the products target for higher profit margins. Turnover attributable by Royal Treasure reported for the year ended 31 December 2001 was HK\$74.9 million.

During the year under review, an independent secured creditor exercised its power of sale over all share of Pam & Frank Holdings Company Limited ("PFHC") and several other subsidiaries. The profit arising from such disposal was HK\$145 million.

#### Debt Restructuring

After undertaking a series of debt restructuring initiatives, the management has successfully turned GCST from a net liability company of HK\$ 335.8 million into a company which currently has approximately HK\$66.3 million net assets as at 31 December, 2001.

With the aim of improving the Group's financial position as well as the gearing ratio, the new management entered into settlement agreements with a major creditor on December 19, 2001 and successfully reduced borrowings, hence released the Group from the debts due.

To settle the outstanding loan of HK\$32,300,000 which is secured on the issued capital of Tech Finance Company Limited ("Tech-Finance"), the Group has transferred the legal title of Tech Finance to the lender. Tech Finance is engaged in securities trading.

### Capital Structure

During the period, the Group has successfully placed a total of 3,362.4 million new shares to raise a total net proceeds of HK\$400 million. The proceeds were used to repay substantial amount of liabilities of the Group, investment and as general working capital.

### Liquidity & Financial Resources

The Group continues to adopt prudent funding and treasury policies. As at December 31, 2001, the gearing ratio of the Group was 8.8%, which was calculated based on the total borrowing of HK\$39 million and the total ordinary share capital of HK\$445 million. The total borrowing significantly decreased from HK\$231.6 million in previous year to HK\$39.0 million this year. The borrowing is denominated in Hong Kong Dollars, repayable on demand and non-interest bearing.

### Significant Investments

During the period, former directors made several investments in companies engaged in IT business. Those investments were resulted in unrealised holding loss of HK\$34.6 million. Also, the Group invested HK\$25 million to acquire 83% interest in Leckford Limited ("Leckford") which holds 20% indirect interest in a handbag trading company. In mid April 2002, the former shareholder of Leckford exercised the option to repurchase 83% interest in Leckford.

As the current directors are unable to obtain sufficient documentary evidence and financial information to satisfy themselves as to the recoverability of the exchangeable loan of HK\$ 25 million advanced to independent third party, a qualified opinion from auditors was issued.

### Employees

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

### Outlook

Looking ahead, leveraging the strengths of its shareholders and its capable management team, the Group will develop itself into a cross-straits regional listed flagship for economic and technology exchange and cooperation.

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After a series of consolidation and restructuring processes, the Group has acquired 1 Lyndhurst Tower, Central, which has a total gross floor area of approximately 87,836 sq. ft, for use as its own base and also as an investment. The aggregate consideration amounts to HK\$160 million which will be satisfied by way of issuing new shares, preference shares and warrants. At present, the premises bring in HK\$0.8 million rental income to the Group per month.

In the future, we will continue to adopt a prudent strategy in operating our business and will continue to seek sound and high growth projects to beef up the Group's assets as well as to ensure investor benefits. To more appropriately reflect this new business focus, the Group will change its name to "Greater China Holdings Limited".

Last but not least, on behalf of the Board of Directors, I would like to take this opportunity to express our sincere gratitude to all our shareholders for their loyalty and support, especially to our strategic reorganization. I would also like to thank my fellow directors for their efforts that have contributed so much to the Group throughout the year. With the new management team implementing effective new business development strategies, we have every confidence that the Group will yield the best return on resources and bring higher returns for our shareholders.

**Xu Ying**

*Chairman*

Hong Kong

25 April 2002