

Notes to the Financial Statements

For the period from July 1, 2000 to December 31, 2001

1. GENERAL

The Company was incorporated in Bermuda on June 23, 1992 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

During the current period, the Group is principally engaged in the trading of handbags, securities trading, manufacturing and trading of cut and sew products, plastic items and porcelain products and investment holding.

The financial statements for the current period cover the eighteen months ended December 31, 2001. The corresponding amounts shown for the income statement, cash flows and related notes cover the year ended June 30, 2000 and therefore may not be comparable with the amounts shown for the current period. The current period financial statements is more than twelve months because the directors determined to bring the financial year end date in line with the financial year end date of the then major shareholder of the Company.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The current directors were appointed on or after October 15, 2001 and have used their best endeavours to locate all the financial and business records of the Group. However, the current directors have encountered the following difficulties in preparing the consolidated financial statements.

(a) The current directors are unable to obtain sufficient documentary evidence to satisfy themselves as to whether the following amounts included in the consolidated income statement based on unaudited management accounts relating to subsidiaries, which were either disposed of or liquidated during the period from July 1, 2000 to December 31, 2001, were fairly stated:

- Turnover of approximately HK\$12,202,000
- Cost of sales of approximately HK\$17,511,000
- Other revenue of approximately HK\$35,000
- Selling and distribution costs of approximately HK\$594,000
- Administrative expenses of approximately HK\$9,209,000
- Finance costs of approximately HK\$11,435,000

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For the period from July 1, 2000 to December 31, 2001

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued)

The current directors are also unable to obtain sufficient documentary evidence and financial information to satisfy themselves as to the validity, proper recording and the recoverable amount of the Group's investment securities of approximately HK\$16,676,000, which was included in the consolidated balance sheet at June 30, 2000 and disposed of during the period from July 1, 2000 to December 31, 2001. As a result, the comparative figures at June 30, 2000 shown in the consolidated balance sheet and in the consolidated income statement for the year then ended may not be comparable with the figures for the current period.

Against this background, the current directors are unable to satisfy themselves as to whether the gain on disposal and liquidation of these subsidiaries of approximately HK\$145,038,000 included in the consolidated income statement for the period from July 1, 2000 to December 31, 2001 was fairly stated.

- (b) The current directors are unable to obtain sufficient documentary evidence and financial information to satisfy themselves as to the recoverable amount of the exchangeable loan receivable of HK\$25,000,000 included in the consolidated balance sheet at December 31, 2001.

Any adjustments arising from the matters described above would, as appropriate, affect the net assets of the Group and the Company at December 31, 2001 and the loss and cash flows of the Group for the period from July 1, 2000 to December 31, 2001.

3. ADOPTION OF STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current period, the Group has adopted, for the first time, Statement of Standard Accounting Practice No. 14 (Revised) "Leases" ("SSAP 14 (Revised)") issued by the Hong Kong Society of Accountants.

In accordance with SSAP 14 (Revised), some amendments were introduced to the basis of accounting for operating leases and to the disclosures specified for the Group's leasing arrangements. These changes have not had any material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required. Disclosures for the Group's leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised). Comparative amounts have been restated in order to achieve a consistence presentation.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in securities. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. 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, other than those excluded for reasons referred to below, made up to the balance sheet date.

Where an interest in a subsidiary is acquired with the intention that control is to be temporary, the Group's interest in the subsidiary is stated in the consolidated balance sheet as a current asset at the lower of cost and net realisable value.

Where a subsidiary operates under severe restrictions which significantly impair control by the Group over its assets and operations, the Group's interest in the subsidiary is stated in the consolidated financial statements at the amount at which it would have been included under the equity method of accounting at the date on which the restrictions came into force, less provision for any subsequent impairment in value.

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

All significant intercompany transactions and balances within the Group (other than these subsidiaries not consolidated) have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the purchase consideration over the fair value ascribed to the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the separable net assets at the date of acquisition over the purchase consideration, is credited to reserves.

On disposal of a subsidiary, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the gain or loss on disposal of the subsidiary.

Notes to the Financial Statements

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4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary. Results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the period.

Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the period/year. In the consolidated balance sheet, interests in associates are stated at the Group's share of net assets of the associates plus the premium paid/less any discount on acquisition in so far as it has not already been written off or amortised or released to income, less any decline in the value of the associate that is other than temporary.

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 period.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Sale of goods is recognised when goods are delivered and title has passed.

Sale proceeds on trading of securities are recognised on a trade date basis when a sale and purchase contract is entered into.

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. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceed and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation 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:

Land	Over the term of the lease
Buildings	2.5% – 3.33%
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

Notes to the Financial Statements

For the period from July 1, 2000 to December 31, 2001

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries denominated in foreign currencies are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Taxation

The charge for taxation is based on the results for the period/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.

Operating leases

Rentals payable in respect of operating leases 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, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

Notes to the Financial Statements

For the period from July 1, 2000 to December 31, 2001

5. TURNOVER AND SEGMENT INFORMATION

The Group's turnover and contribution to profit before taxation for the period from July 1, 2000 to December 31, 2001, analysed by principal activity and geographical market, are as follows:

	Turnover		Contribution to profit (loss) before taxation	
	7.1.2000 to 12.31.2001 HK\$'000	Year ended 6.30.2000 HK\$'000	7.1.2000 to 12.31.2001 HK\$'000	Year ended 6.30.2000 HK\$'000
By principal activity				
Trading of handbags	74,868	–	4,760	–
Securities trading	115,481	–	(9,063)	–
Manufacturing and trading of cut and sew products, plastic items and porcelain products	12,202	50,114	(5,309)	(1,186)
	202,551	50,114	(9,612)	(1,186)
Other revenue			2,744	7,229
Waiver of short term loans			10,373	–
Provision for legal claims			–	(37,208)
Unrealised holding loss of other investments			(34,610)	–
Gain on disposal and liquidation of subsidiaries and associates			129,921	–
Allowance for amount receivable in respect of disposal of subsidiaries			(3,500)	–
Selling and distribution, administrative expenses and finance costs			(81,845)	(88,753)
Profit (loss) before taxation			13,471	(119,918)
By geographical market				
United States	15,806	44,124	(5,125)	(666)
Canada	–	4,449	–	94
Hong Kong	179,290	–	(4,546)	–
Other countries	7,455	1,541	59	(614)
	202,551	50,114	(9,612)	(1,186)
Other revenue			2,744	7,229
Waiver of short term loans			10,373	–
Provision for legal claims			–	(37,208)
Unrealised holding loss of other investments			(34,610)	–
Gain on disposal and liquidation of subsidiaries and associates			129,921	–
Allowance for amount receivable in respect of disposal of subsidiaries			(3,500)	–
Selling and distribution, administrative expenses and finance costs			(81,845)	(88,753)
Profit (loss) before taxation			13,471	(119,918)

Notes to the Financial Statements

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6. COST OF SALES

Included in cost of sales was provision for inventories of HK\$72,000 (year ended 6.30.2000: HK\$203,000).

7. OTHER REVENUE

Included in other revenue is interest income of HK\$2,388,000 (year ended 6.30.2000: HK\$300,000).

8. LOSS FROM OPERATIONS

	THE GROUP	
	7.1.2000 to 12.31.2001 HK\$'000	Year ended 6.30.2000 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Auditors' remuneration	619	1,264
Depreciation		
Owned assets	7,422	9,001
Assets held under hire purchase contract	120	–
Guaranteed profit payments made to the joint venture partners in the People's Republic of China ("PRC")	–	1,657
Minimum lease payments paid under operating lease in respect of rented premises	1,432	3,915
Staff costs including directors' emoluments	33,140	21,583
Loss (gain) on disposal of property, plant and equipment	201	(2,159)

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9. WAIVER OF SHORT TERM LOANS

	THE GROUP	
	7.1.2000 to 12.31.2001 HK\$'000	Year ended 6.30.2000 HK\$'000
Waiver of short term loans from a business associate (note)	10,162	–
Waiver of other short term loans	211	–
	10,373	–

Note: Li Mei Trading Company (“Li Mei”), a business associate of the Group, filed a winding-up petition against the Company with the court in late March 2000 as a result of the failure to repay outstanding loan due from the Group. On August 1, 2000, the Group, Li Mei and an independent party entered into a settlement agreement and a deed of undertaking so that the independent party would settle, by instalments, the loan due by the Group to Li Mei and the settlement will not be financed by or recoverable from the Group. Li Mei has withdrawn the winding-up petition against the Company and, on August 14, 2000, the court dismissed the winding-up petition. Li Mei has no recourse against the Group in the event of default of payment by the third party.

10. FINANCE COSTS

	THE GROUP	
	7.1.2000 to 12.31.2001 HK\$'000	Year ended 6.30.2000 HK\$'000
Interest on:		
Bank borrowings	99	16,753
Convertible bond	5,924	2,378
Hire purchase contract	15	–
Other loans wholly repayable within five years	14,672	4,184
Fees for restructuring of bank loans	–	3,718
	20,710	27,033

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11. DISCONTINUED OPERATIONS

On February 5, 2001, Pam & Frank Industrial Company Limited, a subsidiary of the Company engaged in the design, manufacturing and trading of bags and stuffed toys, was put into liquidation. Since then the Group disposed of other subsidiaries engaged in similar business. The gain on disposal and liquidation of these subsidiaries amounted to HK\$145,038,000 and the net cash flow effect was summarised in note 35.

The results of these subsidiaries for the period from July 1, 2000 to the date of discontinuance, which have been included in the consolidated financial statements, were as follows:

	7.1.2000 to 12.31.2001 HK\$'000	Year ended 6.30.2000 HK\$'000
Turnover	12,202	50,114
Loss before taxation	16,350	98,780

12. DIRECTORS' EMOLUMENTS

	THE GROUP	
	7.1.2000 to 12.31.2001 HK\$'000	Year ended 6.30.2000 HK\$'000
Directors' fees	765	–
Other emoluments – executive directors		
Salaries and other benefits	23,116	781
Retirement benefit scheme contributions	30	–
	23,911	781

The directors' fees disclosed above include directors' fees of HK\$190,000 payable to independent non-executive directors.

Emoluments of the directors were within the following bands:

	7.1.2000 to 12.31.2001 Number of directors	Year ended 6.30.2000 Number of directors
Nil to HK\$1,000,000	15	9
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$9,500,001 to HK\$10,000,000	1	–
HK\$11,000,001 to HK\$11,500,000	1	–

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13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (year ended 6.30.2000: one) are directors of the Company whose emoluments are included in note 12 above. The emoluments of the remaining individual (year ended 6.30.2000: four) are as follows:

	THE GROUP	
	7.1.2000 to 12.31.2001 HK\$'000	Year ended 6.30.2000 HK\$'000
Salaries and other benefits	558	4,571
Contractual severance payment for compensation for loss of office	137	–
	695	4,571

Their emoluments were within the following bands:

	7.1.2000 to 12.31.2001 Number of employees	Year ended 6.30.2000 Number of employees
Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$2,000,001 to HK\$2,500,000	–	1

14. TAXATION

	THE GROUP	
	7.1.2000 to 12.31.2001 HK\$'000	Year ended 6.30.2000 HK\$'000
The (charge) credit comprises:		
Hong Kong Profits Tax		
Profit for the period/year	(14,733)	(20)
Overprovision in respect of prior year	–	6,128
	(14,733)	6,108

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the period/year.

Details of unprovided deferred taxation are set out in note 32.

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15. LOSS PER SHARE

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

	7.1.2000 to 12.31.2001 HK\$'000	Year ended 6.30.2000 HK\$'000
Earnings		
Loss for the period/year	(1,262)	(111,310)
Number of shares		
Weighted average number of shares	2,534,834,051	1,051,886,686

No diluted loss per share has been presented for both periods because the conversion of the outstanding convertible bond and share options would not result in a dilution in loss per share.

16. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Land and buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST					
At July 1,2000	196,542	78,165	30,579	3,506	308,792
Additions	–	–	870	1,028	1,898
Disposal of subsidiaries	(196,542)	(78,165)	(30,925)	(4,534)	(310,166)
Other disposals	–	–	(258)	–	(258)
At December 31, 2001	–	–	266	–	266
ACCUMULATED DEPRECIATION					
At July 1, 2000	82,664	78,165	30,579	3,506	194,914
Provided for the period	7,252	–	170	120	7,542
Eliminated on disposal of subsidiaries	(89,916)	(78,165)	(30,649)	(3,626)	(202,356)
Eliminated on other disposals	–	–	(55)	–	(55)
At December 31, 2001	–	–	45	–	45
NET BOOK VALUES					
At December 30, 2001	–	–	221	–	221
At June 30, 2000	113,878	–	–	–	113,878

The Group's land and buildings were located outside Hong Kong held under medium term leases.

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17. PROPERTY DEPOSIT

	THE GROUP	
	12.31.2001 HK\$'000	6.30.2000 HK\$'000
Property deposit, at cost	–	17,085
Impairment loss	–	(17,085)
	–	–

18. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	12.31.2001 HK\$'000	6.30.2000 HK\$'000
Unlisted shares, at cost	1	93,829
Amounts due from subsidiaries	97,740	483,991
	97,741	577,820
Less: provision	(34,500)	(577,820)
	63,241	–

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18. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries at December 31, 2001, which are all operating in Hong Kong, are as follows:

Name	Place of incorporation	Issued and fully paid ordinary share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			Directly	Indirectly	
Bornwise Technology Limited	British Virgin Islands	Ordinary US\$1	100%	–	Investment holding
Champion Well Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Inactive
Delight Link Enterprises Limited	Hong Kong	Ordinary HK\$2	100%	–	Provision of administrative services to group companies
Functional Industries Limited	British Virgin Islands	Ordinary US\$1	100%	–	Investment holding
Leckford Limited (“Leckford”)	British Virgin Islands	Ordinary US\$100	–	83%	Investment holding
Megayield Investment Limited	Hong Kong	Ordinary HK\$10,000	–	100%	Inactive
Mention International Limited	British Virgin Islands	Ordinary US\$1	–	100%	Investment holding
Password Finance Limited (“Password Finance”)	British Virgin Islands	Ordinary US\$1	–	100%	Investment holding
Profit Capital Limited	British Virgin Islands	Ordinary US\$1	100%	–	Investment holding
Royal Treasure Industrial Limited	Hong Kong	Ordinary HK\$2	–	100%	Trading of handbags
Southern Pearl Investment Ltd. (“Southern Pearl”)	British Virgin Islands	Ordinary US\$5	–	100%	Investment holding

The subsidiaries at June 30, 2000 were all disposed of during the period.

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19. SUBSIDIARIES NOT CONSOLIDATED

	THE GROUP	
	12.31.2001 HK\$'000	6.30.2000 HK\$'000
Unlisted shares (note a), at cost, classified under current assets	25,000	–
Share of net assets (note b)	–	467
Less: provision for permanent diminution in value	–	(467)
	25,000	–

Notes:

- (a) The investment at December 31, 2001 represents a 83% interest in Leckford, particulars of which are described in note 18. Leckford holds 49% interest in One Peak Investment Corp., which in turn holds 41% interest in Maytron Enterprises Limited, a company engaged in general trading.

Subsequent to the acquisition of the 83% interest in Leckford from its former shareholder, the Group granted an option to the former shareholder to repurchase the 83% interest in Leckford (the “buy back option”) for a consideration of HK\$26,250,000 on or before September 20, 2002 in the event of a significant change in the management of the Company (including the resignation of Dr. Li Zhong Yuan and/or Mr. Wong Chong Kwong, Derek as directors of the Company). In April, 2002, the former shareholder served a notice to the Group to exercise the buy back option.

The aggregate post-acquisition profit of Leckford not consolidated attributable to the Company are:

	7.1.2000 to 12.31.2001 HK\$'000	Prior years since acquisition HK\$'000
Dealt with in the financial statements of the Company	–	–
Not dealt with in the financial statements of the Company	997	–

The goodwill arising on acquisition of Leckford not written off to the consolidated income statement amounted to approximately HK\$23,521,000.

- (b) The unconsolidated subsidiaries at June 30, 2000 were all disposed of during the period.

20. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	12.31.2001 HK\$'000	30.6.2000 HK\$'000	12.31.2001 HK\$'000	30.6.2000 HK\$'000
Share of net assets	–	–	–	–
Amounts due from associates	–	12,140	–	10,960
	–	12,140	–	10,960
Less: provision	–	(278)	–	(10,960)
	–	11,862	–	–

The Group's associates at June 30, 2000 were all disposed of during the period.

21. INVESTMENT IN SECURITIES

	THE GROUP	
	12.31.2001 HK\$'000	6.30.2000 HK\$'000
Equity securities		
(a) Investment securities		
Unlisted investment, at cost	–	1,705
Amount due from the joint venture	–	14,971
	–	16,676
(b) Other investments		
Unlisted investment, at cost	37,010	–
Less: unrealised holding loss	(34,610)	–
	2,400	–

The unlisted investment at June 30, 2000 represented the Group's interest in Chaozhou Pam & Frank Quanfu Porcelain Factory Co., Ltd. which is registered as a Sino-foreign equity joint venture company in the Peoples Republic of China ("PRC") and was disposed of during the period.

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22. INVENTORIES

	THE GROUP	
	12.31.2001 HK\$'000	6.30.2000 HK\$'000
Raw materials	–	468
Finished goods	–	156
	–	624
Inventories carried at net realisable value		
Raw materials	–	439
Finished goods	–	77
	–	516

23. DEBTORS AND BILLS RECEIVABLE

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

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

	12.31.2001 HK\$'000	6.30.2000 HK\$'000
0 – 60 days	1,121	4,757
61 – 90 days	909	578
Over 90 days	230	472
	2,260	5,807

24. TRADE RECEIVABLE DUE FROM AN ASSOCIATE OF A SUBSIDIARY NOT CONSOLIDATED

The Group allows an average credit period of 90 days to 120 days to the associate.

At the balance sheet date, the age of trade receivable due from the associate of a subsidiary not consolidated is less than 60 days.

25. EXCHANGEABLE LOANS RECEIVABLE

The exchangeable loans receivable comprise:

- (a) An exchangeable loan receivable of HK\$25,000,000 which is secured by an approximately 2% interest in Pioneer Technology Engineering Co., Ltd. ("Pioneer"), a company engaged in the manufacturing of PCB fabrication equipment. The loan carries interest at the same amount as the dividends receivable from Pioneer. On or before the maturity date of July 14, 2002, both the borrower of the loan and the Group have the option to convert the loan into the 2% interest in Pioneer. The loan is repayable on July 14, 2002 if the option is not exercised.
- (b) An exchangeable loan receivable of HK\$5,000,000 which is secured by a 17% interest in Leckford. The loan carries interest at the same amount as the dividends receivable from Leckford. At any time between February 16, 2002 and August 15, 2002, both the borrower of the loan and the Group have the option to convert the loan into the 17% interest in Leckford. The loan is repayable on August 15, 2002 if the option is not exercised.

26. AMOUNT RECEIVABLE IN RESPECT OF DISPOSAL OF SUBSIDIARIES

	THE GROUP	
	12.31.2001 HK\$'000	6.30.2000 HK\$'000
Proceeds receivable from disposal of subsidiaries	64,500	–
Less: provision	(3,500)	–
	61,000	–

During the period, the Group disposed of certain subsidiaries and the details are disclosed in note 35. The outstanding consideration was settled by 500 million shares of TechCap Holdings Limited ("TechCap Shares") which are listed on the Stock Exchange. At the balance sheet date, the market value of the TechCap Shares had decreased and a provision for loss has been made in the consolidated income statement.

Subsequent to the balance sheet date and up to the date of approval of the financial statements, the Group incurred realised loss and unrealised holding loss on the TechCap Shares totalling HK\$36,587,000.

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27. 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:

	12.31.2001 HK\$'000	6.30.2000 HK\$'000
0 – 60 days	9,961	19,790
61 – 90 days	42	5,531
Over 90 days	5,329	202,804
	15,332	228,125

28. AMOUNT DUE FROM (TO) A SHAREHOLDER

Mr. Yang Hung Yu, William, a former director of the Company who had equity interest in the Company, procured certain banking facilities on behalf of the Group. Such banking facilities were used under the bank accounts of Hoi Fat International Limited ("Hoi Fat"). The components of the banking facilities and the balance with Hoi Fat are as follows:

	THE GROUP		THE COMPANY	
	12.31.2001 HK\$'000	30.6.2000 HK\$'000	12.31.2001 HK\$'000	30.6.2000 HK\$'000
Amount due from a shareholder	–	29,199	–	–
Amount due to a shareholder	–	(12,250)	–	(12,250)
Accrued interest on bank borrowings	–	(20,591)	–	–
Trust receipt loans	–	(24,046)	–	–
Bank loans	–	(35,612)	–	–
	–	(92,499)	–	(12,250)

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29. CONVERTIBLE BOND

	THE GROUP & THE COMPANY	
	12.31.2001	6.30.2000
	HK\$'000	HK\$'000
Secured convertible bond repayable within one year	–	20,000

The convertible bond was fully repaid during the period.

30. SHARE CAPITAL

	Number of shares	Nominal amount
	'000	HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At July 1, 1999 and June 30, 2000	3,000,000	300,000
Increase in authorised share capital	3,000,000	300,000
At December 31, 2001	6,000,000	600,000
Issued and fully paid:		
At July 1, 1999 and June 30, 2000	1,051,887	105,189
Placement of shares	3,362,370	336,237
Exercise of share options	35,300	3,530
At December 31, 2001	4,449,557	444,956

Notes to the Financial Statements

For the period from July 1, 2000 to December 31, 2001

30. SHARE CAPITAL (Continued)

Ordinary shares

There was no change in the Company's share capital during the year ended June 30, 2000.

Pursuant to an ordinary resolution passed in a special general meeting of the Company on February 21, 2001, the authorised share capital of the Company was increased from HK\$300,000,000 to HK\$600,000,000 by the creation of an additional 3,000,000,000 new ordinary shares of HK\$0.10 each, ranking pari passu with the then existing shares in all respects.

Pursuant to various placement and subscription agreements during the period from July 1, 2000 to December 31, 2001, an aggregate of 3,362,370,000 shares of HK\$0.10 each were issued at prices ranging from HK\$0.10 to HK\$0.245 each for cash to provide additional working capital for the Group. In addition, 30,000,000 shares of HK\$0.10 each were issued at par and 5,300,000 shares of HK\$0.10 each were issued at HK\$0.16 each for cash as a result of the exercise of the Company's share options by option holders.

Share option scheme

At December 31, 2001, the following options to subscribe for shares were outstanding under the Company's share option scheme:

Number of options	Exercised period		Exercise price per share HK\$
	From	To	
8,500,000	July 9, 2001	August 23, 2002	0.16
10,000,000	February 1, 2002	August 23, 2002	0.13

31. RESERVES

THE GROUP

	Share premium	Capital reserve	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At July 1, 1999	284,096	293	(614,037)	(329,648)
Net loss for the year	–	–	(111,310)	(111,310)
At June 30, 2000	284,096	293	(725,347)	(440,958)
Shares issued at premium	88,867	–	–	88,867
Share issue expenses	(24,965)	–	–	(24,965)
Realised on disposal on subsidiaries	–	(293)	–	(293)
Net loss for the period	–	–	(1,262)	(1,262)
At December 31, 2001	347,998	–	(726,609)	(378,611)

THE COMPANY

	Share premium	Contributed surplus	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At July 1, 1999	284,096	64,379	(607,123)	(258,648)
Net profit for the year	–	–	102,219	102,219
At June 30, 2000	284,096	64,379	(504,904)	(156,429)
Shares issued at premium	88,867	–	–	88,867
Share issue expenses	(24,965)	–	–	(24,965)
Net loss for the period	–	–	(363,105)	(363,105)
At December 31, 2001	347,998	64,379	(868,009)	(455,632)

The capital reserve of the Group represents the difference between the nominal amount of shares issued by the Company and the aggregate nominal amount of the issued share capital of subsidiaries acquired at the time of the group reorganisation prior to the listing of the Company's shares in 1992.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1992.

Notes to the Financial Statements

For the period from July 1, 2000 to December 31, 2001

31. RESERVES (Continued)

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, its issued share capital and its share premium accounts.

At December 31, 2001 and June 30, 2000, the Company had no reserve available for distribution to shareholders.

The deficit of the Group at June 30, 2000 included deficit of HK\$1,317,000 sustained by the associates. These associates are all disposed of during the period.

32. UNPROVIDED DEFERRED TAXATION

Details of the unprovided net deferred tax asset are as follows:

	THE GROUP	
	12.31.2001 HK\$'000	6.30.2000 HK\$'000
Tax effect of timing differences because of:		
Excess of depreciation over tax allowances	–	146
Tax losses	–	3,039
Net deferred tax asset	–	3,185

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

	THE GROUP	
	7.1.2000 to 12.31.2001 HK\$'000	Year ended 6.30.2000 HK\$'000
Tax effect of timing differences because of:		
Excess of depreciation over tax allowances	–	85
Tax losses disallowed by the Inland Revenue Department	–	(128)
Disposal and liquidation of subsidiaries	(3,185)	–
	(3,185)	(43)

The Company had no unprovided deferred tax at the balance sheet date.

Notes to the Financial Statements

For the period from July 1, 2000 to December 31, 2001

33. RECONCILIATION OF PROFIT (LOSS) BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	7.1.2000 to 12.31.2001 HK\$'000	Year ended 6.30.2000 HK\$'000
Profit (loss) before taxation	13,471	(119,918)
Interest income	(2,388)	(300)
Interest expenses	20,710	23,315
Depreciation	7,542	9,001
Unrealised holding loss of other investments	34,610	–
Doubtful debts provided	–	1,727
Gain on disposal and liquidation of subsidiaries and associates	(129,921)	–
Allowance for amount receivable in respect of disposal of subsidiaries	3,500	–
Waiver of short term loans	(10,373)	–
Loss (gain) on disposal of property, plant and equipment	201	(2,159)
(Increase) decrease in inventories	(4,741)	5,418
Increase in debtors, bills receivable, prepayments and deposits	(6,639)	(2,935)
Increase in trade receivable due from an associate of a subsidiary not consolidated	(9,942)	–
Increase in trading securities	(61,760)	–
(Decrease) increase in net amount due to a shareholder	(10,537)	14,212
Increase in creditors, bills payable and accrued charges	14,213	66,422
Increase in amounts due to related companies	–	1,981
Net cash outflow from operating activities	(142,054)	(3,236)

Notes to the Financial Statements

For the period from July 1, 2000 to December 31, 2001

34. ACQUISITION OF SUBSIDIARIES

During the period, the Group acquired a 83% interest in Leckford and 100% interest in Southern Pearl.

	7.1.2000 to 12.31.2001 HK\$'000
Net assets acquired	
Subsidiary not consolidated	25,000
Other investments	22,010
	<hr/> 47,010
Satisfied by:	
Cash	47,010
	<hr/>
Outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	47,010

The subsidiaries acquired during the period do not have material contributions to the Group's turnover and profit from operations and cash flows.

Notes to the Financial Statements

For the period from July 1, 2000 to December 31, 2001

35. DISPOSAL AND LIQUIDATION OF SUBSIDIARIES AND ASSOCIATES

During the current period, the Group disposed and liquidated certain subsidiaries and the effect is summarised as follows:

	7.1.2000 to 12.31.2001 HK\$'000
Net liabilities disposed and liquidated	
Property, plant and equipment	107,810
Interests in associates	902
Investment securities	16,676
Other investments	15,000
Inventories	5,365
Trading securities	61,760
Debtors and bills receivable	12,003
Prepayments and deposits	3,800
Amount due from a shareholder	29,199
Exchangeable loans receivable	34,000
Bank balances and cash	873
Creditors, bills payable and accrued charges	(222,215)
Amount due to a shareholder	(12,251)
Amount due to an associate	(6,830)
Amounts due to related companies	(3,885)
Obligations under hire purchase contract	(397)
Taxation	(31,480)
Bank loans, secured	(4,522)
Short term loans, unsecured	(9,878)
Minority interests	(27,557)
Net liabilities disposed and liquidated	(31,627)
Capital reserve released on disposal	(293)
	(31,920)
Gain on disposal and liquidation of subsidiaries and associates	129,921
Total consideration	98,001
Satisfied by:	
Offset against short term loans	33,501
Outstanding consideration to be satisfied by TechCap Shares (note 26)	64,500
	98,001
Net cash inflow arising on disposal and liquidation:	
Bank balances and cash disposed of	(873)
Bank loans disposed of	4,522
	3,649

Notes to the Financial Statements

For the period from July 1, 2000 to December 31, 2001

35. DISPOSAL AND LIQUIDATION OF SUBSIDIARIES AND ASSOCIATES (Continued)

The subsidiaries disposed and liquidated during the period utilised HK\$56,216,000 to the Group's net operating cash flows, paid HK\$13,872,000 in respect of the net returns on investment and servicing of finance, utilised HK\$50,100,000 for investing activities and raised HK\$119,676,000 in respect of financing activities.

The subsidiaries liquidated and disposed of during the period contributed HK\$127,683,000 to the Group's turnover and suffered loss from operations of HK\$39,780,000.

36. ANALYSIS OF CHANGES IN FINANCING DURING THE PERIOD/YEAR

	Share capital HK\$'000	Share premium HK\$'000	Short term loans HK\$'000	Convertible bond HK\$'000	Obligations under hire purchase contract HK\$'000
At July 1, 1999	105,189	284,096	10,862	20,000	—
Net cash inflow from financing	—	—	18,106	—	—
Assignment of bank loans and accrued interest (note 37 (e))	—	—	63,939	—	—
At June 30, 2000	105,189	284,096	92,907	20,000	—
Net cash inflow (outflow) from financing	339,767	63,902	(69,866)	(20,000)	(133)
Reclassified from amount due to a shareholder (note 37 (c))	—	—	69,711	—	—
Inception of hire purchase contract	—	—	—	—	530
Waiver of short term loans	—	—	(10,373)	—	—
Reduction through disposal of subsidiaries (note 35)	—	—	(9,878)	—	(397)
Offset against proceeds from disposal of subsidiaries (note 35)	—	—	(33,501)	—	—
At December 31, 2001	444,956	347,998	39,000	—	—

37. MAJOR NON-CASH TRANSACTIONS

During the period from July 1, 2000 to December 31, 2001,

- (a) The Group disposed of certain subsidiaries for the settlement of its secured loans and for the purchase of TechCap Shares, details of which are shown in note 35.
- (b) Short term loans of HK\$10,373,000 due from the Group were waived.
- (c) Amount due to a shareholder of HK\$69,711,000 was assigned to independent parties as short term loans.

During the year ended June 30, 2000,

- (d) fully depreciated property, plant and equipment were confiscated by courts to repay creditors of HK\$2,159,000.
- (e) bank loans and accrued interest totalling approximately HK\$63,939,000 were assigned to a third party.

38. CONTINGENT LIABILITIES

- (a) Guaranteed profit payments

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, 2000, cumulative guaranteed profit obligations of 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 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.

Following the disposal of the subsidiaries providing the guarantee during the period, the Group had no contingent liabilities in respect of the guaranteed profit payments.

Notes to the Financial Statements

For the period from July 1, 2000 to December 31, 2001

38. CONTINGENT LIABILITIES (Continued)

(b) Others

	THE GROUP		THE COMPANY	
	12.31.2001 HK\$'000	30.6.2000 HK\$'000	12.31.2001 HK\$'000	30.6.2000 HK\$'000
Guarantee to a third party for loans granted to a subsidiary	–	–	–	69,867
Guarantee for the settlement of rental payable	–	–	–	4,000

39. 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:

	THE GROUP	
	12.31.2001 HK\$'000	6.30.2000 HK\$'000
Within one year	–	1,354
In the second to fifth year inclusive	–	866
	–	2,220

Operating lease commitments at June 30, 2000 represented rentals payable by the Group for its office premises. Leases in Hong Kong was negotiated for a term of two years at fixed monthly rental.

The Company has no operating lease commitment at the balance sheet date.

Notes to the Financial Statements
For the period from July 1, 2000 to December 31, 2001

40. CAPITAL COMMITMENTS

	THE GROUP	
	12.31.2001	6.30.2000
	HK\$'000	HK\$'000
Capital commitment in respect of subscription for new shares of Hai Xia Holdings Limited (note 44 (a))	60,000	–
Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided in the financial statements	–	2,755
Capital contribution to a long term investment	–	6,348

41. PLEDGE OF ASSETS

At June 30, 2000, the Group's properties and assets have been pledged with the relevant parties in respect of the convertible bond (note 29) and banking facilities granted to the Group. The pledge was released during the period.

Notes to the Financial Statements

For the period from July 1, 2000 to December 31, 2001

42. RELATED PARTY TRANSACTIONS AND BALANCES

During the period/year, the following related party transactions and balances are included in the consolidated income statement and the consolidated balance sheet:

	7.1.2000 to 12.31.2001 HK\$'000	Year ended 6.30.2000 HK\$'000
(a) Interest expense to a holder of convertible bond of which a director of the Company is a director and beneficial owner	5,924	–
(b) Maytron Enterprises Limited (note 19)		
Sales of goods	63,809	–
Payment of office rent and rates and building management fees	393	–
Payment of staff costs	2,895	–
Trade receivable	9,942	–
(c) Hoi Fat		
Interest expenses	7,396	2,378
Amount due from	–	29,199
Amount due to	–	92,499
(d) Minority joint venture partners		
Guarantee profit charges	–	1,657
Amount due to	–	12,465
(e) Amount due to a partner of an associate	–	4,642
(f) Companies which certain directors of the Company are directors and have equity interests		
Rental expenses	–	4,457
Building management fee income	–	391
Amount due to	–	3,885

Subsequent to the balance sheet date, the Group received the TechCap Shares for the settlement of outstanding consideration arising from the disposal of certain subsidiaries, as described in note 35, from Pacific Annex Capital Limited. Dr. Li Zhong Yuan and Mr. Wong Chong Kwong, Derek, the ex-directors of the Company, are directors of and have beneficial interests in Pacific Annex Capital Limited.

In the opinion of the directors, the above transactions were carried out at terms agreed by the relevant parties.

43. RETIREMENT BENEFITS SCHEME

The Group is required to participate in the Mandatory Provident Fund Scheme (the “Scheme”) implemented by the Government of Hong Kong in respect of its employees. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

Contributions to the Scheme for the period of HK\$37,867 are calculated at rates specified in the rules of the Scheme.

At the balance sheet date, there were no significant forfeited contributions, which arose upon employees leaving the Scheme and which are available to reduce the contributions payable in the future years.

44. POST BALANCE SHEET EVENTS

- (a) In November 2001, the Company entered into an agreement with Hai Xia Holdings Limited (“Hai Xia”), a company listed on the Stock Exchange, whereby the Company has agreed to subscribe for 100 million new shares of Hai Xia at a price of HK\$0.60 each in consideration of the issue of 600 million new shares of the Company at a price of HK\$0.1 each. In January 2002, this agreement became unconditional so that Hai Xia holds 11.9% equity interest in the Company and the Company holds 21.6% equity interest in Hai Xia.
- (b) In December 2001, the Group entered into an agreement for the settlement of an unsecured short term loan from Sino Century Enterprises Limited of HK\$25,000,000 by the issuance of 250,000,000 new ordinary shares of HK\$0.10 each at par of the Company. In January 2002, this agreement became unconditional.
- (c) In January 2002, the authorised share capital of the Company increased from HK\$600 million to HK\$1,000 million by the creation of 4,000 million new ordinary shares of HK\$0.10 each.
- (d) In February 2002, the Group entered into an agreement for the acquisition of a 100% interest in a company, which is engaged in property investment, for a consideration to be satisfied by 500 million ordinary shares of HK\$0.10 each at par, 1,100 million convertible preference shares of HK\$0.10 each at par and 500 million warrants at nil consideration to be issued by the Company. The convertible preference shares shall have the same right to dividend as the ordinary shares and are convertible into new ordinary shares at the option of holder at any time after the issue. The warrants can be converted into new ordinary shares at HK\$0.10 each at any time within twelve months after the issue. This acquisition was approved by the shareholders of the Company at the special general meeting held on April 22, 2002.
- (e) In March 2002, the directors of the Company proposed to increase the authorised share capital of the Company from HK\$1,000 million to HK\$2,110 million by the creation of 10,000 million new ordinary shares and 1,100 million preference shares of HK\$0.10 each. Also, the directors proposed to terminate the existing share option scheme of the Company and adopt a new share option scheme. Both proposals are approved by shareholders of the Company at the special general meeting held on April 22, 2002.
- (f) In April 2002, the former shareholder of Leckford served a notice to the Group to exercise the buy back option as described in note 19(a).
- (g) Pursuant to a special resolution passed at a special general meeting held on April 22, 2002, the name of the Company was changed from Greater China Sci-Tech Holdings Limited to Greater China Holdings Limited, subject to the approval by the Registrar of Companies in Bermuda, and its Chinese name was changed from 大中華科技控股有限公司 to 大中華實業控股有限公司.