

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2002

1. GENERAL

Pursuant to a special resolution passed at a special general meeting held on 22 April 2002, the name of the Company was changed from Greater China Sci-Tech Holdings Limited to Greater China Holdings Limited, which was approved by the Registrar of Companies in Bermuda on 11 June 2002, 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。

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

- (a) The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited and Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").
- (b) As explained in the Company's consolidated financial statements for the period from 1 July 2000 to 31 December 2001, the directors have been 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 disposed of during the twelve months ended 30 June 2001, were fairly stated:
- Turnover of approximately HK\$12,202,000
 - Cost of sales of approximately HK\$10,240,000
 - Selling and distribution costs of approximately HK\$594,000
 - Administrative expenses of approximately HK\$8,596,000
 - Finance costs of approximately HK\$11,340,000
 - Allowance for doubtful debts of approximately HK\$3,404,000

Against this background, the directors have been unable to satisfy themselves as to whether the gain on disposal of these subsidiaries of approximately HK\$120,057,000 included in the consolidated income statement for the twelve months ended 30 June 2001 was fairly stated.

The directors have also been 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 30 June 2000 and was disposed of in December 2001.

Any adjustments would affect the net profit and cash flows and the associated disclosures in the notes to the condensed financial statements of the Company for the twelve months ended 30 June 2001.

The comparative figures shown in the condensed consolidated income statement cover a period of twelve months ended 30 June 2001 which may not be comparable with the figures for the current period.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in securities. The accounting policies adopted are consistent with those followed in the preparation of the Group's financial statements for the period from 1 July 2000 to 31 December 2001. In the current period, the Group has adopted for the first time the following revised or new SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002.

SSAP 1 (Revised)	Presentation of Financial Statements
SSAP 9 (Revised)	Events after the Balance Sheet Date
SSAP 11 (Revised)	Foreign Currency Translation
SSAP 14 (Revised)	Leases
SSAP 15 (Revised)	Cash Flow Statements
SSAP 26	Segment Reporting
SSAP 28	Provisions, Contingent Liabilities and Contingent Assets
SSAP 29	Intangible Assets
SSAP 30	Business Combinations
SSAP 31	Impairment of Assets
SSAP 32	Consolidated Financial Statements and Accounting for Investments in Subsidiaries
SSAP 34	Employee Benefits

The adoption of SSAP 1 (Revised) results in the presentation of the statement of changes in equity in lieu of the statement of recognised gains and losses.

In accordance with SSAP 15 (Revised), cash flows are classified according to operating, investing and financing activities. The condensed consolidated cash flow statement for the twelve months ended 30 June 2001 has been presented on a consistent basis.

Except for the above, the adoption of the new and revised SSAPs has no material effect on the Group's financial statements for the current or prior accounting periods.

4. TURNOVER AND SEGMENT INFORMATION

The Group's turnover and contribution to profit before taxation, analysed by principal activity and geographical market, are as follows:

BUSINESS SEGMENTS

	Trading of handbags <i>HK\$'000</i>	Investment holding <i>HK\$'000</i>	Manufacturing and trading of cut and sew products, plastic items and porcelain products <i>HK\$'000</i>	Consolidated total <i>HK\$'000</i>
For the six months ended 30 June 2002				
Segment revenue	<u>23,640</u>	<u>7,893</u>	–	<u>31,533</u>
Segment results	(3,513)	47,576	–	44,063
Unallocated corporate overheads				<u>(7,386)</u>
Profit from operations				36,677
Finance costs				<u>(8)</u>
Profit before taxation				<u>36,669</u>
For the twelve months ended 30 June 2001				
Segment revenue	<u>43,691</u>	<u>7,806</u>	<u>12,202</u>	<u>63,699</u>
Segment results	1,381	(87)	(945)	349
Unallocated corporate overheads				<u>(32,958)</u>
Loss from operations				(32,609)
Waiver of short term loans			10,162	10,162
Gain on disposal of subsidiaries			120,057	120,057
Finance costs				<u>(19,106)</u>
Profit before taxation				<u>78,504</u>

GEOGRAPHICAL MARKETS

	United States of America <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>	Other countries <i>HK\$'000</i>	Consolidated total <i>HK\$'000</i>
For the six months ended 30 June 2002				
Segment revenue	<u>361</u>	<u>31,172</u>	<u>-</u>	<u>31,533</u>
Segment results	(36)	44,099	-	44,063
Unallocated corporate overheads				<u>(7,386)</u>
Profit from operations				36,677
Finance costs				<u>(8)</u>
Profit before taxation				<u>36,669</u>
For the twelve months ended 30 June 2001				
Segment revenue	<u>14,269</u>	<u>46,955</u>	<u>2,475</u>	<u>63,699</u>
Segment results	(919)	1,151	117	349
Unallocated corporate overheads				<u>(32,958)</u>
Loss from operations				(32,609)
Waiver of short term loans				10,162
Gain on disposal of subsidiaries				120,057
Finance costs				<u>(19,106)</u>
Profit before taxation				<u>78,504</u>

5. PROFIT (LOSS) FROM OPERATIONS

Profit (loss) from operations has been arrived at after charging depreciation of the Group's property, plant and equipment of HK\$45,000 (1.7.2000 to 30.6.2001: HK\$5 million).

6. FINANCE COSTS

	1.1.2002 to 30.6.2002 HK\$'000	1.7.2000 to 30.6.2001 HK\$'000
Interest on:		
Bank borrowings	-	99
Convertible bond	-	5,924
Hire purchase contract	8	-
Other loans wholly repayable within five years	-	13,083
	<u>8</u>	<u>19,106</u>

7. TAXATION

No provision for Hong Kong Profits Tax has been made for the current period as the Group has no assessable profit.

Taxation for the prior period represented provision for Hong Kong Profits Tax calculated at 16% on the estimated assessable profits arising in Hong Kong.

8. EARNINGS PER SHARE

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

	1.1.2002 to 30.6.2002 HK\$'000	1.7.2000 to 30.6.2001 HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share		
Profit for the period	<u>36,669</u>	<u>80,132</u>
	'000	'000
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	<u>5,205,634</u>	1,728,077
Effect of dilutive share options	-	101,319
Weighted average number of shares for the purpose of diluted earnings per share	<u>5,205,634</u>	<u>1,829,396</u>

The computation of diluted earnings per share for the current period does not assume the exercise of the Company's share options because the exercise prices of the Company's share options were higher than the average market prices of the Company's shares.

The computation of diluted earnings per share for the period from 1 July 2000 to 30 June 2001 did not assume the conversion of the Company's convertible bonds since their exercise would not result in a decrease in earnings per share.

9. PROPERTY, PLANT AND EQUIPMENT

	<i>HK\$'000</i>
Balance at 1 January 2002	221
Additions	361
Provided for the period	(45)
Balance at 30 June 2002	<u>537</u>

10. INVESTMENTS IN SECURITIES

	30.6.2002	31.12.2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
		Other investments
Equity securities:		
Listed in Hong Kong, at market value	131,990	–
Unlisted investments	–	2,400
	<u>131,990</u>	<u>2,400</u>
Carrying amount analysed for reporting purpose as:		
	30.6.2002	31.12.2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current	125,000	2,400
Current	6,990	–
	<u>131,990</u>	<u>2,400</u>

The non-current other investment at 30 June 2002 represents 10.7% interest in China Gas Holdings Limited ("China Gas") (formerly known as Hai Xia Holdings Limited), which is principally engaged in investing in natural gas/energy projects, the retailing of fashion apparel and accessories, property investment and financial and securities investment.

11. SUBSIDIARY NOT CONSOLIDATED

	30.6.2002	31.12.2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	–	25,000

The investment represented a 83% interest in Leckford Limited ("Leckford"). In April 2002, a former shareholder served a notice to the Group to exercise the buy back option to repurchase the 83% interest in Leckford for a consideration of HK\$26,250,000. The sale of Leckford was executed prior to 30 June 2002 and the balance is classified as amount receivable in respect of disposal of subsidiary.

12. TRADE RECEIVABLE

The Group allows an average credit period of 90 days to 120 days to its customers.

The following is an aged analysis of trade receivable of the Group at the balance sheet date:

	30.6.2002 HK\$'000	31.12.2001 <i>HK\$'000</i>
0 – 60 days	11,374	1,121
61 – 90 days	3,792	909
Over 90 days	302	230
	<u>15,468</u>	<u>2,260</u>

13. 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 of a subsidiary not consolidated.

At 31 December 2001, the age of trade receivable due from this entity was less than 60 days.

14. 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 the 2% interest in Pioneer. On or before the maturity date of 14 July 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 became due for repayment on 14 July 2002 as the option was not exercised. The Company has issued a legal letter to pursue the recovery of this exchangeable loan receivable and the directors consider that the balance will be fully recovered.
- (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 the 17% interest in Leckford. At any time between 18 February 2002 and 15 August 2002, both the borrower, a shareholder of Leckford, of the loan and the Group have the option to convert the loan into the 17% interest in Leckford. The loan became due for repayment on 15 August 2002 as the option was not exercised. In accordance with the terms of the exchangeable loan, the settlement shall be in the form either in cash, or listed securities or assets with equivalent value. The borrower offered the settlement in the form of a certain interest in a private company and the directors of the Company are in the process of assessing the offer and counter-offering for the form of assets as the settlement of the loan receivable. The directors consider that the amount will be fully recovered.

15. AMOUNT RECEIVABLE IN RESPECT OF DISPOSAL OF SUBSIDIARIES

	30.6.2002 HK\$'000	31.12.2001 <i>HK\$'000</i>
Amount receivable in respect of disposal of		
– a subsidiary not consolidated	26,250	–
– subsidiaries	<u>–</u>	<u>61,000</u>
	<u>26,250</u>	<u>61,000</u>

At 30 June 2002, the balance is attributable to the sale of Leckford as described in note 11. In accordance with the terms of the buy back option, the consideration shall be satisfied either by cash, or listed securities or assets with equivalent value. The former shareholder offered the consideration in the form of a certain interest in a private company and the directors of the Company are in the process of assessing the offer and counter-offering for the form of assets as the consideration for the sale of Leckford. The directors consider that the amount will be fully recovered.

The outstanding balance at 31 December 2001 was settled during the current period by way of shares of a company listed on the Stock Exchange of Hong Kong Limited. The unsold portion of the shares has been classified as other investments at 30 June 2002.

16. CREDITORS AND ACCRUED CHARGES

Included in creditors and accrued charges at 30 June 2002 are trade payables of approximately HK\$15,036,000 (31.12.2001: HK\$8,273,000) and their aged analysis is as follows:

	30.6.2002 HK\$'000	31.12.2001 <i>HK\$'000</i>
0 – 60 days	11,125	8,231
61 – 90 days	3	42
Over 90 days	<u>3,908</u>	<u>–</u>
	<u>15,036</u>	<u>8,273</u>

17. DEFERRED GAIN ON DISPOSAL OF A SUBSIDIARY NOT CONSOLIDATED

At 30 June 2002, the balance is attributable to the sale of Leckford as described in notes 11 and 15. As the directors of the Company are in the process of assessing the offer made regarding the settlement of the amount receivable in respect of disposal of Leckford, the gain on disposal of HK\$1,250,000 is deferred.

18. SHARE CAPITAL

	Number of shares <i>'000</i>	Nominal amount <i>HK\$'000</i>
<i>Authorised</i>		
Ordinary shares of HK\$0.10 each		
At 1 January 2002	6,000,000	600,000
Increase in authorised share capital	14,000,000	1,400,000
At 30 June 2002	<u>20,000,000</u>	<u>2,000,000</u>
Preference shares of HK\$0.10 each		
At 1 January 2002	–	–
Increase in authorised share capital	1,100,000	110,000
At 30 June 2002	<u>1,100,000</u>	<u>110,000</u>
	Number of shares <i>'000</i>	Nominal amount <i>HK\$'000</i>
<i>Issued and fully paid</i>		
Ordinary shares of HK\$0.10 each		
At 1 January 2002	4,449,557	444,956
Issued in consideration for the acquisition of other investments (<i>note a</i>)	600,000	60,000
Issued for the partial settlement of an unsecured short term loan (<i>note b</i>)	250,000	25,000
At 30 June 2002	<u>5,299,557</u>	<u>529,956</u>

Ordinary shares

- (a) Pursuant to an agreement with China Gas, in January 2002, the Company subscribed for 100 million new shares of China Gas at HK\$0.6 per share in consideration of the issue of 600 million new ordinary shares of the Company at HK\$0.1 per share. On the completion date, the market price of a share of the Company was HK\$0.043. As a result, the difference between the nominal amount and the market price of the 600 million new shares issued by the Company, amounting to HK\$34,200,000, is debited to the capital reserve.
- (b) In January 2002, the Group made a 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 the Company of HK\$0.10 each at par.

Share option scheme

In April 2002, the Company terminated the old share option scheme and adopted a new share option scheme. At 30 June, 2002, the following options issued under the Company's old share option scheme to subscribe for ordinary shares were outstanding:

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

Up to 30 June 2002, no options to subscribe for ordinary shares were granted under the Company's new share option scheme.

19. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
At 1 July 2000	284,096	293	(725,347)	(440,958)
Premium on issue of ordinary shares	57,050	-	-	57,050
Share issue expenses	(9,268)	-	-	(9,268)
Net profit for the period	-	-	80,132	80,132
At 30 June 2001	331,878	293	(645,215)	(313,044)
Premium on issue of ordinary shares	31,817	-	-	31,817
Share issue expenses	(15,697)	-	-	(15,697)
Realised on disposal on subsidiaries	-	(293)	-	(293)
Net loss for the period	-	-	(81,394)	(81,394)
At 31 December 2001	347,998	-	(726,609)	(378,611)
Issue of ordinary shares in exchange of shares in China Gas (note 18 (a))	-	(34,200)	-	(34,200)
Net profit for the period	-	-	36,669	36,669
At 30 June 2002	347,998	(34,200)	(689,940)	(376,142)

20. CAPITAL COMMITMENT

	30.6.2002 HK\$'000	31.12.2001 HK\$'000
Capital commitment in respect of		
- acquisition of a company engaged in property investment	160,000	-
- subscription for new shares of China Gas	-	60,000
	<u>160,000</u>	<u>60,000</u>

21. CONTINGENT LIABILITIES

	30.6.2002 HK\$'000	31.12.2001 HK\$'000
Guarantee given to a bank in respect of a loan facility granted to a company which becomes a wholly-owned subsidiary of the Company after the balance sheet date (note 22 (a))	150,000	-

22. RELATED PARTY TRANSACTIONS AND BALANCES

During the period, the Group has entered into the following transactions with related parties:

	1.1.2002 to 30.6.2002 HK\$'000	1.7.2000 to 30.6.2001 HK\$'000
(a) Interest expense to a holder of convertible bond of which a former director of the Company is a director and beneficial owner	-	5,924
(b) An associate of a subsidiary not consolidated		
Sales of goods	23,279	39,149
Payment of office rent and rates and building management fees	64	262
Payment of staff costs	544	1,424
(c) Interest expenses to a company in which a former director of the Company has equity interest	-	4,878

At 30 June 2002, the Group's balances with related parties are disclosed in the condensed consolidated balance sheet.

23. POST BALANCE SHEET EVENTS

- (a) 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 22 April 2002 and was completed in July 2002.
- (b) Subsequent to the balance sheet date and up to the date of approval of the condensed financial statements, the Group incurred an unrealised holding loss on other investments of HK\$29,495,000.