



GreaterChina
Technology Group Limited
大中華科技(集團)有限公司
(Incorporated in the Cayman Islands with limited liability)

Annual
Report
年報

2001

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Corporate Profile

DIRECTORS

Executive Directors

Ms. Cheng Kit Yin, Kelly
(Chairman and Chief Executive Officer)
Mr. Mak Shiu Chung, Godfrey

Non-executive Directors

Ms. Lau Sio Kuan, Vivian
Mr. Kam Shing

Independent Non-executive Directors

Mr. Heng Kwo Seng
Dr. Lau Lap Ping

AUTHORIZED REPRESENTATIVES

Ms. Cheng Kit Yin, Kelly
Mr. Mak Shiu Chung, Godfrey

AUDIT COMMITTEE MEMBERS

Mr. Heng Kwo Seng
Dr. Lau Lap Ping

COMPLIANCE OFFICER

Mr. Mak Shiu Chung, Godfrey

COMPANY SECRETARY

Mr. Chuang, Johnny CPA (Aust.), AHKSA

QUALIFIED ACCOUNTANT

Mr. Chuang, Johnny CPA (Aust.), AHKSA

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

BANKERS

Standard Chartered Bank
DBS Kwong On Bank
Citibank, N.A.

LEGAL ADVISERS

On Hong Kong Law
Chiu & Partners
41st Floor Jardine House
1 Connaught Place
Hong Kong

On Cayman Islands Law
Conyers, Dills & Pearman, Cayman
Zephyr House
Mary Street
George Town
Grand Cayman
Cayman Islands
British West Indies

On PRC Law
Guangzhou Foreign Economic Law Office
15th Floor, Chengyue Plaza
No. 448-458 Dongfeng Zhong Road
Guangzhou
PRC

SPONSOR

Ernst & Young Corporate Finance Limited
16th Floor, Hutchison House
10 Harcourt Road, Central
Hong Kong

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

PRINCIPAL PLACE OF BUSINESS

33rd Floor, 118 Connaught Road West
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Cayman Islands
Bank of Butterfield International (Cayman)
Limited
Butterfield House
Fort Street
P.O. Box 705 George Town
Grand Cayman
Cayman Islands

Hong Kong
Secretaries Limited
5th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of GreaterChina Technology Group Limited (the "Company") will be held at 33/F, 118 Connaught Road West, Hong Kong on 16th November, 2001 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31st July, 2001;
2. To re-elect retiring director and to fix her remuneration; and
3. To re-appoint auditors and to authorize the board of directors to fix their remuneration.
4. As special business, to consider and, if thought fit, pass the following resolutions with or without amendments as ordinary resolutions:

A. "THAT:

- (i) subject to paragraph (iii) of this resolution and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue and deal with additional shares in the capital of the Company or options, warrants, or similar rights to subscribe for any shares and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (ii) the approval in paragraph (i) of this resolution shall authorize the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (i) of this resolution, otherwise than pursuant to (a) a Rights Issue (as hereinafter defined) or, (b) the exercise of rights of conversion under any securities which are convertible into shares of the Company or, (c) the exercise of any options granted under any option scheme or similar arrangement for the time being adopted by the Company for the grant or issue to the directors and/or employees of the Company and/or any of its subsidiaries of options to subscribe for, or rights to acquire, shares of the Company, shall not in aggregate exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this resolution and the said approval shall be limited accordingly; and
- (iv) for the purpose of this resolution: "Relevant Period" means the period from the passing of this resolution until whichever is the earlier of:
 - (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; or
 - (c) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

"Right issue" means the allotment or issue of shares in the capital of the Company pursuant to an offer of shares open for a period fixed by the directors of the Company made to holders of shares of the Company or any class thereof whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in any territory outside Hong Kong)."

B. "THAT:

- (i) subject to paragraph (ii) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase its owned issued shares of HK\$0.01 each in the capital of the Company on the GEM of the Stock Exchange or on any other stock exchange on which the shares of the Company may be listed and recognized for this purpose by the Securities and Future Commission and the Stock Exchange in accordance with all the applicable laws and the requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (as amended from time to time) or of any other stock exchange, be and is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (i) of this resolution shall not exceed 10 per cent of the aggregate nominal amount of share capital of the Company in issue as at the date of passing of this resolution and the said approval shall be limited accordingly; and
- (iii) for the purpose of this resolution: "Relevant Period" means the period from the passing of this resolution until whichever is the earlier of:
 - (a) the conclusion of the next annual general meeting of the Company;
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; or
 - (c) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting."

- C. "THAT** condition upon the resolution numbered 4B in the notice convening this meeting being passed, the general mandate granted to the directors of the Company to allot, issue and deal with additional securities pursuant to resolution numbered 4A in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares repurchased by the Company under the authority granted pursuant to the said resolution numbered 4B."

By Order of the Board
Johnny Chuang
Company Secretary

Hong Kong, 24th October, 2001

Notes:

1. In order to qualify for attending the forthcoming annual general meeting of the Company, all shares transfer accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Secretaries Limited, 5/F, Wing On Centre, 111 Connaught Road Central, Hong Kong not less than forty-eight hours before the appointed time for holding the meeting.
2. Every member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies (if a member who is the holder of two or more shares) to attend and vote in his stead. A proxy need not be a member of the Company.
3. To be valid, the instrument appointing a proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarized certified copy thereof, must be deposited at the Company's principal place of business at 33/F, 118 Connaught Road West, Hong Kong not less than forty-eight hours before the appointed time for holding the meeting or any adjournment thereof. No instrument appointing a proxy shall be valid after the expiration of twelve months from the date named in it as the date of its execution.
4. In the case of a poll taken subsequently to the date of the meeting or adjourned meeting, the form of proxy must be deposited at the Company's principal place of business at 33/F, 118 Connaught Road West, Hong Kong not less than forty-eight hours before the time fixed for the taking of the poll.
5. Completion and delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting if the member so desires and in such event, the instrument appointing a proxy shall be deemed to be revoked.



Chairman's Statement

On behalf of the Board of Directors (the "Board"), we hereby present the Annual Report of GreaterChina Technology Group Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31st July, 2001.

The past year was an exciting one, witnessing the burst of the United States internet bubble in the summer which resulted in the overall downturn in the global outlook for internet and e-commerce business. However, despite of all these negative operating elements, our Directors still managed to maintain a strong revenue momentum by executing their business strategies with prudent financial and cost controls.

During the past financial period, the Company has achieved the following objectives:

- **Successful Brand-Building**

Our Group has successfully established co-branded sites and linkage to international search engines which not only created global brand recognition but also a significant boost in our revenue stream.

- **Revenue Growth**

The Group's revenue has shown a strong growth of over 175% and 43% respectively in both advertising and portal development income during this year under review as compared to the previous financial year.

- **Additional Revenue**

The Group has achieved to bring in attractive additional interest income of HK\$21 million to the overall income stream by utilising its financial expertise and adopting a well managed portfolio.

- **Strong Financial Position**

As at yearend, the Group has managed to maintain a total net cash and investment position of approximately HK\$231,295,446 or HK\$0.34 per share.

- **Flagship portal www.greaterchinaherbs.com**

The Group has continued to develop this comprehensive healthcare portal, focusing on the promotion of and use and benefits of traditional Chinese medicine and Chinese herbal products. The "Herbal Encyclopedia", the most popular channel now contains 1,500 herbs in Chinese and 1,000 herbs in English. The membership base has grown from 12,000 to 20,000.

- **Second portal www.ladiesasia.com**

The site had just undergone a "face lift" and was well cherished by its members. In order to sustain its position as the leading "female" portal, a few strategic alliances were formed with international business and professional women's associations in which joint seminars were held to promote and enhance the quality of life.

- **E-commerce platform www.senseshop.com**

With a secured and reliable payment gateway, this e-commerce platform has proven to be a positive revenue stream in the near future especially in the PRC, Japan and Korea. So far, sales are growing everyday and the Group is in the midst of expanding its merchandising team to obtain a wider range of products for its on-line customers.

- **In Search of Investment Opportunities**

As announced on 18th September, 2001, the Group intends to expand its existing on-line business to include off-line businesses in relation to the development of an off-line traditional Chinese medicine



business which leverage upon the Group's expertise in traditional Chinese medicine, Chinese herbs and quality lifestyle issues.

FINANCIAL REVIEW

For the twelve months ended 31st July, 2001, the Group's total revenue was amounted to HK\$28 million which comprised of HK\$6.7 million derived from the Group's core business activities, HK\$21.3 million from interest income and other sundries. However, the Directors decided to evaluate the carrying value of the assets of the Group and therefore an impairment losses of website development costs and intangible asset are provided. The impairment losses, research and development costs, depreciation and amortization cost which in aggregate amounted to HK\$39 million. A net loss of HK\$69 million was recorded for the period, representing 10.2 cents per share.

Except for the investment in listed equity securities and marketable bonds which management considered will enhance the overall financial return of the Group, there was no significant investment held by the Group nor material acquisition and disposals of subsidiaries and affiliated companies during the year.

The current ratio of the Group was 2.52 as at yearend compared to 3.88 at the end of last financial period. The gearing ratio, defined as the ratio of total borrowings to total assets, was 36% as compared to 18% as at last financial period. The increase was mainly due to the decrease in total assets which was resulted from the provision made on the impairment losses for the year. However, as for the Group's borrowings, they are mainly short term loan and overdraft which amounted to HK\$161 million as at yearend and they are wholly secured by bank deposits and therefore, the Group has effectively no outstanding borrowings from banks. In view of the bank deposits and the credit facilities granted and no non-current liabilities for the current year, the Director's consider the Group is in a healthy liquidity position.

Major currencies used for the Group's transactions were Hong Kong Dollars and US Dollars and as Hong Kong Dollars are pegged to the US Dollars, there was no significant currency exposure of the Group. Moreover, as the interest charged on the Group's borrowings were based on the interest rate of the Company's deposit, there was no significant interest exposure of the Group.

Contingent liabilities of the Group only consisted of lease commitment for various offices of the Group and amounted to HK\$1 million. There was no significant capital commitment of the Group as at the yearend.

The Group employed 28 full time employees as at yearend. Remuneration of the staff comprised of monthly salary, provident fund contributions, medical claims, education allowances and discretionary options issued based on their contribution to the Group.

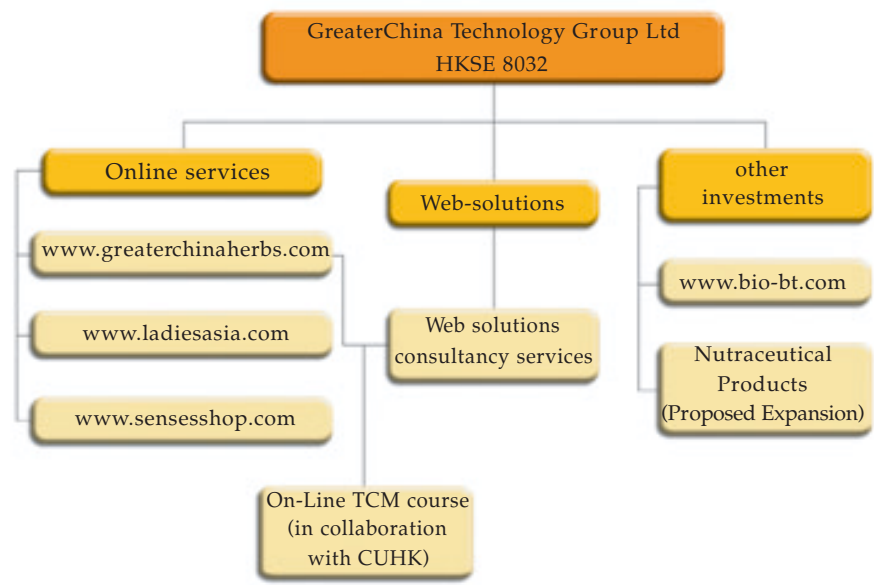
Overall, the net asset value of the Group was HK\$271,770,688 representing approximately HK\$0.40 per share.

BUSINESS REVIEW

The Group is currently a provider of interactive healthcare and lifestyle contents on the internet. Through its website www.greaterchinaherbs.com, the Group offers comprehensive healthcare content in both English, Chinese and Japanese with a specific focus on promoting traditional Chinese medicine, traditional Chinese medicine related therapies and Chinese herbs. Through another website www.ladiesasia.com, the Group provides lifestyle content targeted primarily at Asian ladies. The Group has also launched an e-commerce platform through its website www.sensesshop.com for customers to purchase herbal health products, ladies products, essential oils, costume jewelleryes and other accessories promoting quality lifestyles on-line.

As reported in the previous quarterly report, the Group's on-line traditional Chinese medicine education joint programme with the Chinese University of Hong Kong ("Chinese University") will be scheduled for an official launch in the first half of 2002. The Group will be responsible for all the operational expenses incurred but entitled to all the profits generated therefrom.

The Directors are of the view that it is in the best interests of the Group to diversify its business to include off-line businesses where the Group can leverage its expertise and its market reputation in the fields of traditional Chinese medicine and lifestyle issues to broaden the Group's revenue and business base and increase its growth potential.



FUTURE PLANS AND DEVELOPMENT

Due to the gloomy internet market sentiment, the Group has carefully reviewed its business strategies and revenue model and has decided to seek out investment opportunities with the intention to broaden the Group’s revenue and business base and to maximize the growth potential of the Company.

As indicated on the announcement dated 18th September, 2001, the Directors had informed all shareholders of the Group’s intention to pursue and expand into other off-line businesses related to the promotion of traditional Chinese medicine, Chinese herbs and quality lifestyles. The Group’s proposed expansion to include an off-line traditional Chinese medicine business (including nutraceutical and herbal products) will be subject to shareholders’ approval in a general meeting to be convened for such purpose. A circular containing details of the Group’s proposed expansion will be dispatched to shareholders as soon as practicable.

- **Introduction of a new line of traditional Chinese medicine products**
 The Group’s proposed expansion will involve the launch of a new line of traditional Chinese medicine products. The first product will be a nutraceutical product, manufactured in the States and made from refined Chinese herbs. It is expected to be launched in Hong Kong in the fourth quarter of 2001 either under the Group’s brandname or using other third party brandnames under licensing arrangements. Depending on the market response and product development progress, the Group will consider launching further traditional Chinese medicine including nutraceutical and herbal products.

- **Research and Development**
 The Group intends to develop additional traditional Chinese medicine product lines either in co-operation with external research

institutions or in-house. Recently, a research specialist with PhD in the field of biochemistry was recruited to head and develop the Group's in-house research team.

- **Manufacturing**

The manufacturing of our traditional Chinese medicine product is to be contracted to GMP (Good Manufacturing Practice) certified pharmaceutical and nutraceutical manufacturing companies.

- **Marketing and Distribution**

It is expected that this and all our nutraceutical products will initially be sold through the Group's website www.sensesshop.com and in other pharmacies, healthcare chain stores and other retail outlets in Hong Kong. A promotion campaign will be considered not only in Hong Kong but other countries such as Asia, Europe and the United States at a later stage.

- **Strategic alliances with universities and other distance learning institutions**

In addition to the on-line traditional Chinese medicine education programmes, the Group will continue to explore other cooperative opportunities with Chinese University, other universities or distance learning institutions.

The move by the Group into traditional Chinese medicine (including nutraceutical and herbal products) is designed to enable the Group to leverage its existing experience and expertise to satisfy the market demand for high quality traditional Chinese medicine and herbal products, evidenced by the substantial amount of interest the Group has received from users of its website inquiring on traditional Chinese medicine and herbs. The possible expansion of the Group's business to produce and/or distribute traditional Chinese medicine, herbs through different channels will enhance the Group's revenue and business base. This off-line business is a natural development from the Group's focus and expertise in traditional Chinese medicine, Chinese herbs and lifestyle issues.

APPRECIATION

I would like to take this opportunity to express my gratitude to all members of the Board of Directors and staff for their dedication and contribution to the Group and to those who have continuously supported for their interest in our Group.

Kelly Cheng

Chairman and Chief Executive Officer

Hong Kong, 16th October, 2001





Directors, Senior Management and Staff

DIRECTORS

The Company has two executive Directors, two non-executive Directors and two independent non-executive Directors. Their details are set out below:

Executive Directors

Ms. Cheng Kit Yin, Kelly, aged 49, is the Chairman and Chief Executive Officer of the Company which she founded and where she developed www.greaterchinaherbs.com and www.ladiesasia.com and recently directed the Group to pursue and expand into offline business related to promotion of traditional Chinese medicine. Ms. Cheng is actively involved in the strategic planning, financial management as well as the daily operations of the Group. She graduated from York University, Toronto, Canada with a bachelor degree in mathematics and a master degree in computer science from the University of Toronto, Canada. She has over 23 years' experience in banking, auditing and finance. Ms. Cheng is also the Deputy Chairman and Chief Financial Officer of China Rich Holdings Limited ("China Rich").

Mr. Mak Shiu Chung, Godfrey, aged 38, is the executive director of the Company. Prior to his appointment, Mr. Mak was the managing director of the corporate finance department for a well known European bank,

whereas he was responsible for providing corporate finance services to corporates in Hong Kong and the People's Republic of China. From 1990 to 1997, Mr. Mak was responsible for marketing equity and equity-linked products to corporates in the Greater China region, South East Asia and Korea for two well known investment banks. Mr. Mak began his career in 1988 as an administrative officer in the Hong Kong Government. Mr. Mak holds a bachelor of science degree in business studies from the University of Bradford Management Centre and a master of business administration degree from the University of Wales. Mr. Mak is a member of the Hong Kong Securities Institute and a member of the Chartered Institute of Marketing. Mr. Mak joined the Group in January 2000.

Non-executive Directors

Ms. Lau Sio Kuan, Vivian, aged 36, was appointed Director of SmarTone's broadband division in August 2000. In May 2001, Ms. Lau was appointed Director of Marketing of SmarTone. Prior to joining SmarTone, Ms. Lau was Managing Director of Grey Interactive of Hong Kong which she founded and where she developed and implemented many successful internet business solutions for clients in Hong Kong and China. She was recruited from Australia by Grey Worldwide in 1996 to be Director of IT for Hong Kong and China. Before that, Ms. Lau was Senior Planning Consultant of the Chief Information Office of Qantas Airways Limited. Ms. Lau received a Bachelors of Arts Degree from the University of Texas at Austin, and a Masters Degree from Macquarie University, Australia. She is a fellow member of the Australian Institute of Management and executive board member of Management Information Services Asia. She is also the Chairman of the Hong Kong Chapter of the Interactive Advertising Bureau and the founding Chairman of the Hong Kong 4As' Interactive Committee. In May 1999, she was elected by Advertising Age International to be one of twelve global internet superstars.

Mr. Kam Shing, aged 70, graduated from the Beijing University, the PRC. Mr. Kam has over 43 years' experience in business administration while working for the Guangxi Provincial Government in the PRC. Since 1981, Mr. Kam has been working in Hong Kong as a director of three private companies owned by the Guangxi Provincial Government of the PRC. He joined the Group in January 2000. Mr. Kam is currently an executive director of China Rich.

Independent Non-executive Directors

Mr. Heng Kwoo Seng, aged 53, is the senior partner of a firm of Certified Public Accountants in Hong Kong. He is a fellow member of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Society of Accountants.

Dr. Lau Lap Ping, aged 49, graduated from Zhongshan Medical University of Medicine. She held the position of Attending Physician in Internal Medicine and Pediatrics of Dong San Regional People's Hospital from 1973 to 1994. After that, she worked in a herbal medicinal trading company as a Deputy General Manager and joined the Group in January 2000.

Senior Management

Research and Development

Dr. Ngai Sai Ming, Ice, aged 36, is the Senior Vice President of Research and Development department of the Group. He joined the Group in September 2001. He was a Bioinformatics Specialist in the Hong Kong Bioinformatics Centre in the Chinese University of Hong Kong (CUHK) from 1996 to 2001. He had participated in launching of the Hong Kong Bioinformatics Centre and implementation of the in-house data-searching algorithm for the human genome project in CUHK. He was also responsible for the compilation and maintenance of the Traditional Chinese Medicine (TCM) databases in the Institute of Chinese Medicine (ICM) in CUHK. Besides, he also took part in designing and conducting Bioinformatics and TCM related researches. Mr. Ngai holds an honor bachelor of science degree in Biochemistry from the University of Waterloo and a doctor of philosophy degree in protein and peptide Biochemistry from University of Alberta, Canada.

Dr. Zou Ling, aged 41, graduated from Zhongshan Medical University of Medicine. She works for Internal Diseases Department of Guangdong Provincial People's Hospital and specializes in internal secretion. Dr. Zou has a deep understanding in the treatment of diabetes and hyperthyroidism. She has written numerous articles for various magazines in the PRC. Dr. Zou joined the Group in May 1997 and is the chief physician and medical adviser of the Company.

Mr. Lin Zhi Hang, aged 61, is the Vice President of the Business Development (China Division) of the Group. He was graduated from Beijing Centered University of Finance & Economics with a Major in International Finance. He joined the Group in May, 2000.

Having been engaged in the banking industry for more than 30 years, Mr. Lin is not only a specialist in International Finance and International Trade, but also a highly competent administrator. Before he joined the Group Mr. Lin was the high ranking official of Bank of China Group, Hong Kong.

Corporate Communication and Investor Relations

Ms. Hung, Suzanna, aged 33, is the Senior Vice President, Corporate Communications of the Group. Ms. Hung handles corporate communications and investor relations responsibilities for the Group. She joined the Group in April 2001. Prior to joining the Group, Ms. Hung was Director of Institutional Sales and Head of Research at a regional financial institution. Before that, Ms. Hung held successive posts as Head of Research at two other international investment banks. Ms. Hung read Economics at the University of Durham, United Kingdom.

Corporate Finance and Accounts

Mr. Chuang, Johnny, aged 33, is the Vice President of Corporate Finance of the Group. He is also the Company Secretary of the Company. Mr. Chuang joined the Group in January 2000. He is in charge of the accounts department, responsible for reviewing potential investment opportunities and also corporate secretarial assignments. He is member of Australian Society of Certified Practicing Accountants and an associate member of Hong Kong Society of Accountants. Prior to his employment with the Group, he worked with an international accounting firm in Hong Kong for over 6 years.

Ms. Ho Chung-Yee, Marian, aged 29, is the Vice President of Corporate Finance of the Group. She executes feasibility studies on the Group's investment and the overall global business development. Ms. Ho started her career in Hong Kong in 1994 and was previously with VP Private Equity as a financial analyst before joining the Group in August, 2001.

Ms. Ho is a graduate of the University of British Columbia and holds a degree of Bachelor of Arts, majoring in Economics. She is a member of the AIMR, as well as the Hong Kong Securities Institute since 1999. She has more than 7 years of experience in the finance field and mainly involved in investment banking, investment analysis and investment management.

Legal

Ms. Lee Lai Ling, Amy, aged 36, is the corporate legal counsel of the Company. She joined the Group in February 2000. Ms. Lee read law at Westminster University in United Kingdom which was then called Polytechnic of Central London and was admitted as a solicitor in Hong Kong in 1995. She attained substantial experience in both corporate and commercial matter as well as in commercial, construction and personal injury litigation. From May 1998 onwards, she served some local listed companies as in-house legal officer. Ms. Lee is now responsible for overseeing and advising on all legal and regulatory matters of the Group's business.

ADVISORY BOARD

Medical and Clinical Advisers

Dr. Lin Shu Guang, aged 50, is the Governor of Guangdong Provincial People's Hospital and the Dean of Guangdong Provincial Cardiovascular Research Institute and is specialized in cardiovascular pharmacological research. He has been practicing extensively in cardiology for more than 20 years, and is fellow of America College of Cardiology. He was awarded as the Outstanding Returned Scientist by the National Expert, and the National Prizes for Advancement in Science and Technology. He has published more than twenty papers and two books on cardiology.

Dr. Liao Xin Bo, aged 44, graduated from Guangzhou Medical College of Medicine and continued his study at the University of George Washington, the USA. He acted as the Vice Governor of Guangdong People's Provincial Hospital and he also took up the Hospital's administrative work.

Dr. Zeng Guo Hong, aged 47, graduated from Zhongshan Medical University. He specializes in pediatric cardiac catheterization and is a specialist in the PRC in radiofrequency ablation and treatments for paroxysmal supraventricular tachycardia in children. He is the tutor for MM Candidates in Cardiovascular Pediatric, Deputy Dean of Guangdong Province blood vessels study Institute, Vice Governor of Guangdong Provincial People's Hospital, and deputy general manager of Guangdong Concord Medical Center. He has published various papers and journals relating to heart diseases and was awarded the Provincial Prizes for Advancement in Science and Technology.

Dr. Luo Song Ping, aged 43, is the chief professor at the Gynecological Teaching and Research Section of the First Clinical Medical College under the Guangdong University of Traditional Chinese Medicine. She was conferred the title of "Middle-aged or Young Expert with Prominent Contributions" by the Ministry of Personnel. She has also received awards from the State Education Commission and the Ministry of Health on several occasions.



Comparison of Business Objectives and Actual Businesses

COMPARISON BETWEEN PROPOSED BUSINESS OBJECTIVES AND ACTUAL PERFORMANCE FROM 31ST JANUARY, 2001 TO 31ST JULY, 2001

Proposed

Actual

CONTENT DEVELOPMENT

* Launch Korean version of greaterchinaherbs.com	Not yet achieved because of the enactment of legislation on the practice of Traditional Chinese Medicine which may affect the qualification of the translators and delay the launch of Korean platform
* Launch special editorial forum hosted by renowned Chinese herbalist, doctors and experts	Not yet achieved due to further integration of video conferencing and live chat
* Continue to sponsor research and development in spearheading health content such as Shiatsu, aromatherapy and acupuncture on a global basis	Not yet achieved because the Group has been applying a high standard in selecting the right contents for inclusion in the portal. It is continuing seeking and evaluating potential projects
** Sign up with new PRC raw content provider for research material and professional consultation	Not yet achieved because of the enactment of regulations concerning the practice of Traditional Chinese Medicine which may affect the qualification of the content provider

Increase knowledge repository of herbal encyclopedia to 700 herbs

Over 1,000 and over 1,500 herbs were published on the website in English and Chinese respectively

Launch the website ladiesasia.com, which comprises an English and a Chinese platform

www.ladiesasia.com was launched in May 2000

Create online consultation platform for the Japanese market with interface on the cellular mobile enabling technology

Not yet achieved because of the enactment of legislation on the practice of Traditional Chinese Medicine which may affect the qualification of the doctors and delay the launch of the online consultation platform for the Japanese market

Launch the website ceohk.com, which comprises an English and a Chinese platform

The structure of www.ceohongkong.com has been developed and content of www.ceohongkong.com is under development

Continue to sponsor research and development in spearheading health content on a global basis

Not yet achieved because the Group has been applying a high standard in selecting the right contents for inclusion in the portal. It is continuing seeking and evaluating potential projects

Continue to sponsor research and development on content relating to Asian women on a global basis

Not yet achieved because the Group has been applying a high standard in selecting the right contents for inclusion in the portal. It is continuing seeking and evaluating potential projects

E-COMMERCE DEVELOPMENT

Source more products for the e-commerce development

Arrangement has been set up with various small to medium enterprises in relation to the offering of unique products for online shopping on consignment basis

Continue to align with more partners for e-commerce online shopping

Arrangement has been set up with various small to medium enterprises in relation to the offering of unique products for online shopping on consignment basis

PRODUCT AND TECHNOLOGY DEVELOPMENT AND ENHANCEMENT

** Adopt the latest Internet access platform such as digital televisions to reach the old generation homemakers

Not yet achieved, the Group is evaluating the costs of using different service provider

Develop and deploy interactive multimedia channels including forum, chat rooms, learning space device and video over Internet to provide online medical health, consultation services, and open distance learning

Not yet achieved, the Group is evaluating the costs of using different service provider

MARKET PENETRATION

Promote and sponsor full advertising campaigns on ladiesasia.com and ceohk.com in Hong Kong, People's Republic of China ("PRC"), United States of America ("US"), Japan and Korea through online advertising, participation in seminars and distribution of promotional materials

Advertising campaigns are carried out in the PRC, US, Singapore, Japan, Taiwan, Malaysia, Australia and Europe through different advertising agents

Conduct online advertising on selected sites which promote health awareness and enhance quality of life

Advertising campaigns are carried out in the PRC, US, Singapore, Japan, Taiwan, Malaysia, Australia and Europe through different advertising agents

RESOURCES EMPLOYMENT

Increase e-commerce sourcing and marketing staff (1)	One person
Increase content development team (1)	One person
Employ database team (1)	None

The Group feels that in order to expand progressively, it should be selective in finding the best possible candidate even if that results in a slower than expected personnel expansion

(* Objectives scheduled for the period from 31st July, 2000 to 31st January, 2001)

(** Objectives scheduled for the period from 27th March, 2000 to 31st July, 2000)

USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES

	Proposed	Actual
	<i>HK\$</i>	<i>HK\$</i>
Content Translation and Product Development	5,850,000	500,000
E-commerce Development	1,560,000	500,000
Promotion and Marketing	14,430,000	1,000,000
Maintenance and Operation	17,160,000	10,800,000
	<u>39,000,000</u>	<u>12,800,000</u>

REASONS FOR DIFFERENCE BETWEEN USAGE OF PROCEEDS AND FORECAST USAGE

Many internet companies have a reputation of burning enormous amounts of cash, major staff expansion and high expenditures on the latest and most sophisticated equipment. At the same time, many of these companies have faced massive layoffs or have simply disappeared off the face of the web.

Due to the downturn in the global outlook for internet and e-commerce businesses and the overall economy, the Group has implemented cost-control measures which have resulted in the actual costs incurred to implement the Group's business activities being lower than envisaged in the prospectus issued by the Company at the time of listing and furthermore certain business activities which were planned in the scheduled achievements have been delayed. As a result, the Group has expended less money than envisaged in the Prospectus in implementing its business plan.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st July, 2001.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the activities of its principal subsidiaries are set out in note 17 to the financial statements.

The principal activities of the Group are the provision of online content and the provision of portal development and information technology consultation services in Hong Kong.

RESULTS

The results of the Group for the year ended 31st July, 2001 are set out in the consolidated income statement on page 27.

The Directors do not recommend the payment of a dividend.

SEGMENTAL INFORMATION

The Group's turnover and contribution to loss from operations for the year ended 31st July, 2001, analysed by principal activity were as follows:

	Turnover <i>HK\$</i>	Contribution to (loss) profit before taxation <i>HK\$</i>
By principal activity:		
Advertising income	4,048,639	(3,850,432)
Portal development and information technology advisory income	2,473,822	1,960,808
Sales of goods	246,548	157,117
	<u>6,769,009</u>	
Other revenue		21,364,896
Finance costs		(8,582,008)
General and administrative expenses		<u>(84,370,001)</u>
Loss before taxation		<u>(73,319,620)</u>

Directors' Report

SEGMENTAL INFORMATION *(continued)*

All of the activities of the Group are based in Hong Kong and all of the Group's turnover and loss from operations are derived from Hong Kong. Accordingly, no geographical analysis is presented.

FINANCIAL SUMMARY

A summary of the results of the Group for each of four years ended 31st July, 2001 is set out on page 56.

SHARE CAPITAL AND OPTIONS

Details of the Company's share capital are set out in note 22 to the financial statements. There was no movement in the Company's share capital during the year.

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

Details of the Company's share option scheme are set out in note 23 to the financial statements.

DISTRIBUTABLE RESERVES

At 31st July, 2001, the Company's reserves available for distribution to shareholders comprising share premium less accumulated losses, amounted to HK\$332,013,781.

Details of movements in the reserves of the Group and the Company during the year are set out in note 24 to the financial statements.

PLANT AND EQUIPMENT

During the year, the Group acquired plant and equipment amounting to HK\$2,609,151.

Details of movements in plant and equipment of the Group and the Company during the year are set out in note 13 to the financial statements.

BORROWINGS

Bank loans and overdrafts repayable within one year or on demand are classified as current liabilities. The Group's obligation under a hire purchase contract were fully repaid during the year.

No interest was capitalised by the Group during the year.

POST BALANCE SHEET EVENT

Details of the post balance sheet event are set out in note 33 to the financial statements.

Directors' Report

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Ms. Cheng Kit Yin, Kelly (*Chairman and Chief Executive Officer*)

Mr. Mak Shiu Chung, Godfrey

Non-executive directors

Ms. Lau Sio Kuan, Vivian

Mr. Kam Shing

Independent non-executive directors

Dr. Lau Lap Ping

Mr. Heng Kwoo Seng

In accordance with Article 108 of the Company's Articles of Association, Ms. Lau Sio Kuan, Vivian retires and, being eligible, offers herself for re-election.

The terms of office of each directors are subject to retirement by rotation in accordance with the Company's Articles of Association.

CONNECTED TRANSACTIONS AND DIRECTORS' INTEREST IN CONTRACTS

Details of the discloseable connected transactions and directors' interest in contracts for the year are set out in note 29 to the financial statements. Save as disclosed therein, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

The independent non-executive directors have reviewed the connected transactions set out in note 29 to the financial statements and in their opinion, these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Other than as disclosed above, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Report

DIRECTORS' SERVICE CONTRACTS

Each of Ms. Cheng Kit Yin, Kelly and Mr. Mak Shiu Chung, Godfrey, being the executive directors, has entered into a service contract with the Company for an initial term of 35 months commencing from 18th February, 2000 and will continue thereafter until terminated by not less than three months' notice in writing served by either party expiring at the end of the initial term of the director's appointment or at any time thereafter.

Apart from the foregoing, the director being proposed for re-election at the forthcoming annual general meeting does not have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND OPTIONS

As at 31st July, 2001, the interests of the directors and the chief executive of the Company in the share capital of the Company and the associated corporation disclosed pursuant to section 29 of the Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

(i) Shares

Shares in the Company

Name of director	Number of shares Personal and total interests
Ms. Cheng Kit Yin, Kelly	44,046,020

Shares in China Rich Holdings Limited

Name of director	Number of shares Personal and total interests
Ms. Cheng Kit Yin, Kelly	52,300,000

Directors' Report

DIRECTORS AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND OPTIONS

(continued)

(ii) Options

Options in the Company

Name of director	Date of grant	Exercise price HK\$	Number of share options			
			Outstanding as at 1.8.2000	Granted	Exercised	Outstanding as at 31.7.2001
Ms. Cheng Kit Yin, Kelly	19th December, 2000	0.218	-	16,000,000	-	16,000,000
Mr. Mak Shiu Chung, Godfrey	19th December, 2000	0.218	-	7,500,000	-	7,500,000

Options in China Rich Holdings Limited

Name of director	Date of grant	Exercise price HK\$	Number of share options			
			Outstanding as at 1.8.2000	Granted	Exercised	Outstanding as at 31.7.2001
Ms. Cheng Kit Yin, Kelly	5th March, 1997	0.43	5,000,000	-	-	5,000,000
	26th January, 2000	0.30	4,000,000	-	-	4,000,000
	22nd March, 2000	0.33	10,000,000	-	-	10,000,000
Mr. Kam Shing	26th January, 2000	0.30	3,000,000	-	-	3,000,000

Other than as disclosed above, none of the Directors had any interest in the equity or debt securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including the interests which they were deemed or taken to have under section 31 of, or Part I of the Schedule to the SDI Ordinance), or pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules or which are required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein.

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Directors' Report

DIRECTORS AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND OPTIONS

(continued)

Other than as disclosed above and nominees shares in certain subsidiaries held in trust for the Company, at 31st July, 2001, neither the directors nor the chief executive, nor any of their associates, had any interests in any securities of the Company or any of its associated corporations as defined by the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 31st July, 2001, the register of substantial shareholders maintained by the Company pursuant to section 16(1) of the SDI Ordinance discloses the following company as having an interest of 10% or more of the issued share capital of the Company:

Name	Number of shares
China Rich Holdings Limited	258,451,559

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st July, 2001.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDIT COMMITTEE

The Company's audit committee was formed on 17th March, 2000 comprising the independent non-executive directors, Dr. Lau Lap Ping and Mr. Heng Kwo Seng. The terms of reference of the audit committee have been established with regard to Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report, financial statements, half-year reports and quarterly reports and to provide advice and comments thereon to the Board of Directors.

During the year, the audit committee met fourth times for reviewing the Group's quarterly, half year and annual reports.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied throughout the year ended 31st July, 2001 the minimum standards of good practice concerning the general management responsibilities of the board of directors as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

Directors' Report

SPONSOR INTEREST

Pursuant to the agreement dated 20th February, 2001 entered into between the Company and Ernst & Young Corporate Finance Limited ("Ernst & Young"), Ernst & Young has been appointed as the Company's sponsor for the period from and including such date to 31st July, 2002, in respect of which Ernst & Young will be entitled to a fee.

At 31st July, 2001, neither the directors, employees nor their associates of Ernst & Young, had any interest in any securities of the Company or any of its associated corporations.

COMPETING INTERESTS

For the year ended 31st July, 2001, the Directors are not aware of any business or interest of the Directors, the management shareholders and their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interests which any such person has or may have with the Group.

LARGEST SUPPLIERS AND CUSTOMERS

The five largest suppliers of the Group for the year accounted for approximately 53% of the Group's cost of purchases such as purchases of hardware and software and services such as web design and advertising and promotion. The Group's largest supplier accounted for approximately 11% of its cost of purchases and services for the year.

The five largest customers of the Group for the year accounted for approximately 75% of the Group's turnover. The Group's largest customer accounted for approximately 20% of its turnover for the year.

At 31st July 2001, one of the Group's five largest customers is a subsidiary of China Rich Holdings Limited. All transactions between the Group and the supplier concerned were carried out on normal commercial term.

Other than as disclosed above, as far as the directors are aware, neither the directors, their associates nor those shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) had any interest in the Group's five largest customers and suppliers.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint the auditors, Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board
Cheng Kit Yin, Kelly
Chairman and
Chief Executive Officer

16th October, 2001

Auditors' Report

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE MEMBERS OF GREATERCHINA TECHNOLOGY GROUP LIMITED

大中華科技(集團)有限公司

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 27 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Auditors' Report

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st July, 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

16th October, 2001

Consolidated Income Statement

For the year ended 31st July, 2001

		1.8.2000 to 31.7.2001 HK\$	13.1.2000 to 31.7.2000 HK\$
	<i>Notes</i>		
Turnover	4	6,769,009	3,205,239
Cost of sales		<u>(89,431)</u>	<u>(648,690)</u>
Gross profit		6,679,578	2,556,549
Other revenue	5	21,364,896	8,547,260
Administrative and other operating expenses		(72,343,735)	(13,686,821)
Impairment losses	7	(20,438,351)	–
Slotting fee	6	<u>–</u>	<u>(23,340,000)</u>
Loss from operations	7	(64,737,612)	(25,923,012)
Finance costs	8	<u>(8,582,008)</u>	<u>(723,746)</u>
Loss before taxation		(73,319,620)	(26,646,758)
Taxation	10	<u>–</u>	<u>–</u>
Loss before minority interests		(73,319,620)	(26,646,758)
Minority interests		<u>4,260,493</u>	<u>(369,516)</u>
Net loss for the year/period	11	<u><u>(69,059,127)</u></u>	<u><u>(27,016,274)</u></u>
Loss per share	12	<u><u>10.2 cents</u></u>	<u><u>4.8 cents</u></u>

There were no recognised gains or losses other than the net loss for the year/period.

Consolidated Balance Sheet

At 31st July, 2001

	Notes	2001 HK\$	2000 HK\$
NON-CURRENT ASSETS			
Plant and equipment	13	9,405,546	8,758,818
Website development costs	14	–	11,509,263
Intangible asset	15	–	1,494,884
Investment	16	560,495	560,495
		<u>9,966,041</u>	<u>22,323,460</u>
CURRENT ASSETS			
Inventories – finished goods at cost		48,636	–
Debtors, deposits and prepayments	18	40,816,105	106,380,837
Investments in securities	19	43,533,135	–
Amounts due from the China Rich Group	20	402,517	964,766
Bank deposits secured for credit facilities		194,252,518	225,230,728
Bank balances and cash		154,706,277	102,655,723
		<u>433,759,188</u>	<u>435,232,054</u>
CURRENT LIABILITIES			
Creditors and accrued charges		10,758,057	29,224,667
Obligation under a hire purchase contract		–	77,496
Bank loans – due within one year, secured	21	44,252,518	18,151,784
Bank overdrafts, secured	21	116,943,966	64,830,422
		<u>171,954,541</u>	<u>112,284,369</u>
NET CURRENT ASSETS		<u>261,804,647</u>	<u>322,947,685</u>
		<u>271,770,688</u>	<u>345,271,145</u>
CAPITAL AND RESERVES			
Share capital	22	6,780,800	6,780,800
Reserves	24	264,989,888	334,049,015
		<u>271,770,688</u>	<u>340,829,815</u>
MINORITY INTERESTS		–	4,260,493
NON-CURRENT LIABILITY			
Obligation under a hire purchase contract		–	180,837
		<u>271,770,688</u>	<u>345,271,145</u>

The financial statements on pages 27 to 55 were approved by the Board of Directors on 16th October, 2001 and are signed on its behalf by:

Cheng Kit Yin, Kelly
DIRECTOR

Mak Shiu Chung, Godfrey
DIRECTOR

Balance Sheet

At 31st July, 2001

	Notes	2001 HK\$	2000 HK\$
NON-CURRENT ASSETS			
Plant and equipment	13	4,611,371	4,087,670
Investments in subsidiaries	17	–	13,227,646
		<u>4,611,371</u>	<u>17,315,316</u>
CURRENT ASSETS			
Debtors, deposits and prepayments	18	31,144,328	72,133,306
Investments in securities	19	41,487,135	–
Amounts due from subsidiaries		5,000,000	4,672
Bank deposits secured for credit facilities		170,281,928	202,636,323
Bank balances		154,245,659	102,556,247
		<u>402,159,050</u>	<u>377,330,548</u>
CURRENT LIABILITIES			
Creditors and accrued charges		8,826,828	–
Amounts due to subsidiaries		47,525,416	17,037,327
Obligation under a hire purchase contract		–	77,496
Bank loan – due within one year, secured	21	1,997,653	–
Bank overdrafts, secured	21	9,625,943	9,245,255
		<u>67,975,840</u>	<u>26,360,078</u>
NET CURRENT ASSETS		<u>334,183,210</u>	<u>350,970,470</u>
		<u>338,794,581</u>	<u>368,285,786</u>
CAPITAL AND RESERVES			
Share capital	22	6,780,800	6,780,800
Reserves	24	332,013,781	361,324,149
		338,794,581	368,104,949
NON-CURRENT LIABILITY			
Obligation under a hire purchase contract		–	180,837
		<u>338,794,581</u>	<u>368,285,786</u>

Cheng Kit Yin, Kelly
DIRECTOR

Mak Shiu Chung, Godfrey
DIRECTOR

Consolidated Cash Flow Statement

For the year ended 31st July, 2001

		1.8.2000 to 31.7.2001 HK\$	13.1.2000 to 31.7.2000 HK\$
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	25	<u>(55,178,833)</u>	<u>(82,598,787)</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		22,345,035	5,615,525
Dividend received		108,274	–
Interest paid on bank loans and overdrafts		(8,205,456)	(618,319)
Interest paid on obligation under a hire purchase contract		<u>(40,532)</u>	<u>(16,533)</u>
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>14,207,321</u>	<u>4,980,673</u>
INVESTING ACTIVITIES			
Decrease (increase) in bank deposits secured for credit facilities with original maturity over three months		152,636,324	(152,636,324)
Website development costs		(13,302,938)	(958,141)
Purchase of plant and equipment		(2,609,151)	(2,438,038)
Acquisition of subsidiaries	26	<u>–</u>	<u>(5,308,274)</u>
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES		<u>136,724,235</u>	<u>(161,340,777)</u>
NET CASH INFLOW (OUTFLOW) BEFORE FINANCING ACTIVITIES		<u>95,752,723</u>	<u>(238,958,891)</u>
FINANCING ACTIVITIES	27		
Repayment of obligation under a hire purchase contract		(258,333)	(51,667)
Net proceeds from issue of shares		<u>–</u>	<u>331,278,479</u>
NET CASH (OUTFLOW) INFLOW FROM FINANCING		<u>(258,333)</u>	<u>331,226,812</u>
INCREASE IN CASH AND CASH EQUIVALENTS		95,494,390	92,267,921
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD		<u>92,267,921</u>	<u>–</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		<u>187,762,311</u>	<u>92,267,921</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank deposits secured for credit facilities		194,252,518	72,594,404
Bank balances and cash		154,706,277	102,655,723
Bank loans and overdrafts		<u>(161,196,484)</u>	<u>(82,982,206)</u>
		<u>187,762,311</u>	<u>92,267,921</u>

Notes to the Financial Statements

For the year ended 31st July, 2001

1. GENERAL

The Company was incorporated in the Cayman Islands on 13th January, 2000 as an exempted company with limited liability under the Companies Law (1998 Revision) of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM") on 6th April, 2000.

The Company is an investment holding company. Details of the activities of the Company's subsidiaries (together with the Company referred to as the "Group") are set out in note 17.

Details of the balances and transactions with China Rich Holdings Limited ("China Rich") and its subsidiaries (the "China Rich Group") are set out in notes 20 and 29 respectively.

2. ADOPTION OF STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted Statement of Standard Accounting Practice 14 (Revised) "Leases" issued by the Hong Kong Society of Accountants. Adoption of this standard has resulted in some modifications to the presentation of financial statements. Comparative amounts have been restated in order to achieve a consistent presentation. However, none of this amendment has affected the results for the current or prior periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in securities and 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 made up to 31st July each year.

The results of the subsidiaries acquired or disposed of during the year/period 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 have been eliminated on consolidation.

Notes to the Financial Statements

For the year ended 31st July, 2001

3. 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. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

Revenue recognition

Advertising income is recognised ratably over the period in which the advertisement is displayed, provided that no significant obligations remain at the end of a period. Obligations typically include the guarantee of a minimum number of impressions or times that an advertisement appears in pages viewed by the users of the Group's online properties. To the extent that minimum guaranteed impressions are not met, the Group defers recognition of the corresponding revenue until the remaining impressions are delivered.

Portal development and information technology advisory income is recognised when the services are provided.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Plant and equipment

Plant and equipment other than plant and machinery under installation 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 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.

Notes to the Financial Statements

For the year ended 31st July, 2001

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Plant and equipment *(continued)*

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

Depreciation is provided to write off the cost of plant and equipment other than plant and machinery under installation over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold improvements	Over the term of the lease
Office equipment	33 ¹ / ₃ %
Motor vehicle	25%
Furniture and fixtures	33 ¹ / ₃ %

Depreciation will be provided to write off the cost of plant and machinery under installation when they are put to effective use.

Assets held under hire purchase contracts are depreciated over their expected useful lives on the same basis as owned assets.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to made the sale.

Assets held under hire purchase contracts

Assets held under hire purchase contracts are capitalised at their fair value at the date of acquisition. The corresponding liability is included in the balance sheet as a hire purchase obligation. Finance costs, which represent the difference between the total commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant contract so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Notes to the Financial Statements

For the year ended 31st July, 2001

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Website development costs

The costs incurred in acquiring website database, website application and infrastructure are capitalised and amortised over a period of three years. The carrying values of these costs are reviewed annually to determine whether any impairment loss is required. Other website development costs are charged to the income statement in the year/period in which they are incurred.

Investments

All securities other than held-to-maturity debt securities are initially recorded at cost and are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the year/period.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Statement of Standard Accounting Practice, in which case the impairment loss is treated as a revaluation decrease under that Statement of Standard Accounting Practice.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another Statement of Standard Accounting Practice, in which case the reversal of the impairment loss is treated as a revaluation increase under that Statement of Standard Accounting Practice.

Notes to the Financial Statements

For the year ended 31st July, 2001

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development costs

Expenditure on research and development is charged to the income statement in the year in which it is incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are deferred and written off over the life of the project from the date of commencement of commercial operation.

Advertising expenses

The cost of advertising is expensed as incurred.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the terms of the relevant lease.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

The charge for taxation is based on the results for the year/period 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 under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

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 advances.

Notes to the Financial Statements

For the year ended 31st July, 2001

4. TURNOVER

	1.8.2000 to 31.7.2001 HK\$	13.1.2000 to 31.7.2000 HK\$
Advertising income	4,048,639	1,471,939
Portal development and information technology advisory income	2,473,822	1,733,300
Sales of goods	<u>246,548</u>	<u>–</u>
	<u>6,769,009</u>	<u>3,205,239</u>

The cost of inventories recognised as an expense during the year amounted to HK\$89,431 (13.1.2000 to 31.7.2000: nil).

5. OTHER REVENUE

	1.8.2000 to 31.7.2001 HK\$	13.1.2000 to 31.7.2000 HK\$
Interest income	21,111,058	7,154,991
Dividend income	108,274	–
Sundry income	<u>145,564</u>	<u>1,392,269</u>
	<u>21,364,896</u>	<u>8,547,260</u>

6. SLOTTING FEE

The amount represented slotting fee of HK\$23,340,000 payable to Lycos Asia (HK) Ltd. to establish co-branded site and linkage to its network for the period of three years commencing from 21st February, 2000. In the opinion of the directors, this fee was established on a business decision and this linkage would create global brand recognition to the Group's portals. It was written off in the period ended 31st July, 2000 as in the opinion of the directors, the co-branded site and the linkage of the network did not have the capacity to generate future economic benefits that would eventually result in significant net cash inflows to the Group.

Notes to the Financial Statements

For the year ended 31st July, 2001

7. LOSS FROM OPERATIONS

	1.8.2000	13.1.2000
	to	to
	31.7.2001	31.7.2000
	HK\$	HK\$
Loss from operations has been arrived at after charging:		
Advertising and promotion expenses	26,338,246	3,429,763
Auditors' remuneration	361,710	152,000
Amortisation of website development costs	5,868,734	1,721,470
Depreciation on:		
Owned assets	1,949,506	628,119
An asset held under a hire purchase contract	12,917	51,667
	1,962,423	679,786
Impairment loss on website development costs	18,943,467	–
Impairment loss of intangible asset	1,494,884	–
	20,438,351	–
Loss on investments in securities	2,141,907	–
Operating leases payment in respect of rented premises	550,000	184,069
Research and development costs	10,544,015	–
Staff costs including directors' remuneration:		
Salaries and allowances	10,176,574	4,316,463
Retirement benefits scheme contributions	145,222	–
	10,321,796	4,316,463
Website development costs	15,011,074	2,337,513
Less: Amount capitalised	13,302,938	958,141
	1,708,136	1,379,372

Notes to the Financial Statements

For the year ended 31st July, 2001

8. FINANCE COSTS

	1.8.2000 to 31.7.2001 HK\$	13.1.2000 to 31.7.2000 HK\$
Interest on:		
Bank loans and overdrafts wholly repayable within five years	8,541,476	707,213
A hire purchase contract	40,532	16,533
	<u>8,582,008</u>	<u>723,746</u>

9. DIRECTORS AND EMPLOYEES' EMOLUMENTS

	1.8.2000 to 31.7.2001 HK\$	13.1.2000 to 31.7.2000 HK\$
Directors' other emoluments		
Executive directors		
Salaries and other allowances	3,910,000	1,982,760
Retirement benefits scheme contributions	16,000	–
	<u>3,926,000</u>	<u>1,982,760</u>
Non-executive directors		
Salaries and other allowances	184,000	86,620
Independent non-executive directors		
Salaries and other allowances	192,000	86,620
	<u>4,302,000</u>	<u>2,156,000</u>

Notes to the Financial Statements

For the year ended 31st July, 2001

9. DIRECTORS AND EMPLOYEES' EMOLUMENTS (continued)

The emoluments of the directors were within the following bands:

	No. of directors	
	1.8.2000 to 31.7.2001	13.1.2000 to 31.7.2000
Nil to HK\$1,000,000	4	5
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	1	–
	6	6

During the year, there were two directors who received emoluments of HK\$2,168,000 (13.1.2000 to 31.7.2000: HK\$1,082,760) and HK\$1,758,000 (13.1.2000 to 31.7.2000: HK\$900,000) respectively. Each of other three directors received emoluments of HK\$96,000 (13.1.2000 to 31.7.2000: HK\$43,310) and the remaining director received emoluments of HK\$88,000 (13.1.2000 to 31.7.2000: HK\$43,310) respectively. None of the directors has waived any emoluments during the year/period.

During the year/period, no directors' fees were paid by the Group. No emoluments were paid by the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

Employees' emoluments

During the year/period, the five highest paid individuals included two directors, details of whose emoluments are set out above. The emoluments of the remaining three highest paid individuals were as follows:

	1.8.2000	13.1.2000
	to	to
	31.7.2001	31.7.2000
	HK\$	HK\$
Salaries and other allowances	1,224,494	673,692
Retirement benefits scheme contributions	21,097	–
	1,245,591	673,692

The aggregate emoluments of each of the highest paid individuals were less than HK\$1,000,000 for the year/period.

Notes to the Financial Statements

For the year ended 31st July, 2001

10. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred tax losses for the year/period.

Details of unprovided deferred taxation during the year are set out in note 28.

11. NET LOSS FOR THE YEAR/PERIOD

Of the Group's net loss for the year, a loss of HK\$29,310,368 (13.1.2000 to 31.7.2000: profit of HK\$258,860) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$69,059,127 (13.1.2000 to 31.7.2000: HK\$27,016,274) and on the weighted average of 678,080,000 (13.1.2000 to 31.7.2000: 560,856,800) shares in issue during the year.

No diluted loss per share for the current year has been presented because the effect of exercising an option to subscribe for additional ordinary share of the Company is anti-dilutive.

No diluted loss per share for the prior period was presented because the effect of exercising an option to subscribe for additional ordinary share of a subsidiary was anti-dilutive.

Notes to the Financial Statements

For the year ended 31st July, 2001

13. PLANT AND EQUIPMENT

	Leasehold improvements HK\$	Plant and machinery under installation HK\$	Office equipment HK\$	Motor vehicle HK\$	Furniture and fixtures HK\$	Total HK\$
THE GROUP						
COST						
At 1st August, 2000	808,450	4,671,148	3,504,884	310,000	144,122	9,438,604
Additions	<u>1,712,800</u>	<u>123,027</u>	<u>641,395</u>	<u>–</u>	<u>131,929</u>	<u>2,609,151</u>
At 31st July, 2001	<u>2,521,250</u>	<u>4,794,175</u>	<u>4,146,279</u>	<u>310,000</u>	<u>276,051</u>	<u>12,047,755</u>
DEPRECIATION						
At 1st August, 2000	134,742	–	477,864	51,667	15,513	679,786
Provided for the year	<u>546,958</u>	<u>–</u>	<u>1,263,521</u>	<u>77,500</u>	<u>74,444</u>	<u>1,962,423</u>
At 31st July, 2001	<u>681,700</u>	<u>–</u>	<u>1,741,385</u>	<u>129,167</u>	<u>89,957</u>	<u>2,642,209</u>
NET BOOK VALUES						
At 31st July, 2001	<u>1,839,550</u>	<u>4,794,175</u>	<u>2,404,894</u>	<u>180,833</u>	<u>186,094</u>	<u>9,405,546</u>
At 31st July, 2000	<u>673,708</u>	<u>4,671,148</u>	<u>3,027,020</u>	<u>258,333</u>	<u>128,609</u>	<u>8,758,818</u>
	Leasehold improvements HK\$	Office equipment HK\$	Motor vehicle HK\$	Furniture and fixtures HK\$	Total HK\$	
THE COMPANY						
COST						
At 1st August, 2000	808,450	3,504,884	310,000	144,122	4,767,456	
Additions	<u>1,712,800</u>	<u>641,395</u>	<u>–</u>	<u>131,929</u>	<u>2,486,124</u>	
At 31st July, 2001	<u>2,521,250</u>	<u>4,146,279</u>	<u>310,000</u>	<u>276,051</u>	<u>7,253,580</u>	
DEPRECIATION						
At 1st August, 2000	134,742	477,864	51,667	15,513	679,786	
Provided for the year	<u>546,958</u>	<u>1,263,521</u>	<u>77,500</u>	<u>74,444</u>	<u>1,962,423</u>	
At 31st July, 2001	<u>681,700</u>	<u>1,741,385</u>	<u>129,167</u>	<u>89,957</u>	<u>2,642,209</u>	
NET BOOK VALUES						
At 31st July, 2001	<u>1,839,550</u>	<u>2,404,894</u>	<u>180,833</u>	<u>186,094</u>	<u>4,611,371</u>	
At 31st July, 2000	<u>673,708</u>	<u>3,027,020</u>	<u>258,333</u>	<u>128,609</u>	<u>4,087,670</u>	

The motor vehicle was held under a hire purchase contract as at 31st July, 2000. During the year, the obligation under the hire purchase contract was fully repaid.

Notes to the Financial Statements

For the year ended 31st July, 2001

14. WEBSITE DEVELOPMENT COSTS

HK\$

THE GROUP

COST

At 1st August, 2000 13,230,733

Additions 13,302,938

At 31st July, 2001 26,533,671

AMORTISATION AND IMPAIRMENT LOSS

At 1st August, 2000 1,721,470

Provided for the year 5,868,734

Impairment loss (*note 7*) 18,943,467

At 31st July, 2001 26,533,671

NET BOOK VALUES

At 31st July, 2001 -

At 31st July, 2000 11,509,263

15. INTANGIBLE ASSET

HK\$

THE GROUP

COST

At 1st August, 2000 and 31st July, 2001 1,494,884

IMPAIRMENT LOSS

Provided for the year (*note 7*) and at 31st July, 2001 1,494,884

CARRYING AMOUNTS

At 31st July, 2001 -

At 31st July, 2000 1,494,884

The amount represents technology knowhow of concept and insecticidal mechanism of bioinsecticide acquired from a third party.

Notes to the Financial Statements

For the year ended 31st July, 2001

16. INVESTMENT

THE GROUP

The investment represents the Group's 18.75% other investment in 北京科谷苑工貿有限公司. In the opinion of the directors, the fair value of the Group's other investment equals to the cost of the investment.

17. INVESTMENTS IN SUBSIDIARIES

	2001	2000
	HK\$	HK\$
THE COMPANY		
Unlisted shares, at cost	13,227,650	13,227,646
Impairment loss	13,227,650	–
	<u>–</u>	<u>13,227,646</u>

Details of the Company's principal subsidiaries as at 31st July, 2001 are as follows:

Name of subsidiary	Place of incorporation	Paid up issued share capital	Proportion of nominal value of issued capital by the Company		Principal activities
			Directly %	Indirectly %	
Greaterchinaherbs.com Limited	British Virgin Islands	US\$2	100	–	Provision of online healthcare content
Ladiesasia Limited	British Virgin Islands	US\$1	100	–	Provision of online general content for Asian women
iBusiness Limited	Hong Kong	HK\$2	100	–	Portal development
iCare Technology Limited	British Virgin Islands	US\$1	100	–	Investment holding
iSolutions Development Limited	Hong Kong	HK\$2	100	–	Portal development
Weston Investment Limited	Hong Kong	HK\$8,960,000	–	60	Investment holding
Beijing Weston Biological-Technology Co. Limited	People's Republic of China	RMB1,320,000	–	45	Production and sale of bio-insecticide (not yet commenced business)

Notes to the Financial Statements

For the year ended 31st July, 2001

17. INVESTMENTS IN SUBSIDIARIES (continued)

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Beijing Weston Biological-Technology Co. Limited principally operates in the People's Republic of China. All other subsidiaries principally operate in Hong Kong.

18. DEBTORS, DEPOSITS AND PREPAYMENTS

	THE GROUP		THE COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Debtors and other receivables	3,440,008	24,954,465	397,480	36,567,958
Deposits for investment projects	30,000,000	60,000,000	30,000,000	30,000,000
Utility and other deposits	556,097	20,051,891	36,848	8,900
Prepayments	6,820,000	1,374,481	710,000	5,556,448
	<u>40,816,105</u>	<u>106,380,837</u>	<u>31,144,328</u>	<u>72,133,306</u>

19. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Trading securities, at market value				
Listed equity securities in				
Hong Kong	3,984,600	–	1,938,600	–
Marketable bonds outside				
Hong Kong	39,548,535	–	39,548,535	–
	<u>43,533,135</u>	<u>–</u>	<u>41,487,135</u>	<u>–</u>

The marketable bonds represent the Group's investment in US\$5,000,000 bonds issued by The Development Bank of Singapore Limited which carry interest with a coupon rate of 7.657% per annum and mature on 15th March, 2011. The bonds are rated by Standard & Poor at A-.

20. AMOUNTS DUE FROM THE CHINA RICH GROUP

THE GROUP

The amounts are unsecured, non-interest bearing and have no fixed terms of repayment. Ms. Cheng Kit Yin, Kelly and Mr. Kam Shing have beneficial interests in and are also directors of China Rich and certain of its subsidiaries.

Notes to the Financial Statements

For the year ended 31st July, 2001

21. BANK LOANS AND OVERDRAFTS

The bank loans and overdrafts of the Group and the Company are secured by bank deposits.

22. SHARE CAPITAL

	Number of shares	Share capital HK\$
Authorised:		
Shares of HK\$0.01 each		
At date of incorporation	10,000,000	100,000
Increase in share capital	<u>1,990,000,000</u>	<u>19,900,000</u>
At 31st July, 2000 and 31st July, 2001	<u>2,000,000,000</u>	<u>20,000,000</u>
Issued and fully paid:		
Shares of HK\$0.01 each		
Issue of shares to China Rich	1	–
Issue of shares on acquisition of a subsidiary	9,999,999	100,000
Issue of shares by capitalisation of share premium account	304,666,668	3,046,667
Issue of shares to strategic investors	93,333,332	933,333
Issue of shares to a director and employees of the Group	68,000,000	680,000
Issue of shares by way of placing	<u>202,080,000</u>	<u>2,020,800</u>
At 31st July, 2000 and 31st July, 2001	<u>678,080,000</u>	<u>6,780,800</u>

The Company was incorporated with an authorised share capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each. On 13th January, 2000, one share was allotted and issued nil paid to China Rich.

Pursuant to a resolution in writing of the sole shareholder of the Company passed on 20th February, 2000, to effect the group reorganisation in preparation for the listing of the Company's shares on the GEM, the authorised share capital of the Company was increased from HK\$100,000 to HK\$20,000,000 by the creation of a further 1,990,000,000 shares. On the same date, 9,999,999 shares were issued and credited as fully paid to China Rich and credited as fully paid at par the one share allotted and issued to China Rich nil paid on 13th January, 2000, as consideration for the transfer of two shares of US\$1 each in Greaterchinaherbs.com Limited from China Rich to the Company.

Notes to the Financial Statements

For the year ended 31st July, 2001

22. SHARE CAPITAL (continued)

On 20th February, 2000, a sum of HK\$2,933,334 standing to credit of the share premium account of the Company was capitalised by applying such sum in paying up in full at par 293,333,335 shares for allotment and issue to holders of shares whose name appear on the register of members of the Company at the close of business on 20th February, 2000 in proportion to their then existing shareholding.

On 21st February, 2000, three strategic investors acquired 93,333,332 shares at an aggregate subscription price of HK\$94,740,000.

On 21st February, 2000, a sum of HK\$113,333 standing to the credit of the share premium account of the Company was capitalised by applying such sum in paying up in full at par 11,333,333 shares for allotment and issue to holders of shares whose names appear on the register of member of the Company at the close of business on 21st February, 2000 in proportion to their then existing shareholding.

On 26th February, 2000, 68,000,000 shares were issued and allotted, for cash at par, to Ms. Cheng Kit Yin, Kelly and other employees of the Group.

Pursuant to another written resolution which was passed on 17th March, 2000, the Company issued 202,080,000 shares for cash at HK\$1.38 per share on 5th April, 2000 by way of placing.

The net proceeds from the placing, after deducting related expenses, are approximately HK\$259 million. The Board of Directors intended to apply such net proceeds as follows:

- as to approximately HK\$103 million for promotion and marketing activities;
- as to approximately HK\$29 million for e-commerce development and operation;
- as to approximately HK\$70 million for maintenance and operation;
- as to approximately HK\$29 million for content translation and product development; and
- as to the balance of approximately HK\$28 million as additional working capital of the Company.

All shares issued by the Company during the period ended 31st July, 2000 rank *pari passu* with the then existing shares in all respects.

Notes to the Financial Statements

For the year ended 31st July, 2001

23. SHARE OPTION SCHEME

In accordance with the Company's share option scheme for employees, which was adopted pursuant to a resolution in writing passed by the sole shareholder of the Company on 21st February, 2000, executive directors and employees of the Company and its subsidiaries may be granted options to subscribe for shares in the Company.

The subscription price for shares under the share option scheme will be a price determined by the directors, but may not be less than the higher of the closing price of shares on the GEM on the date of grant of the particular option or the average of the closing price of the shares on the GEM for the five trading days immediately preceding the date of grant of the particular option or the nominal value of a share. A nominal consideration of HK\$1 is payable on acceptance of each grant of options. An option may be exercised in accordance with the terms of the share option scheme at any time during the period to be determined and notified by the directors to each grantee. Such period may not end on a date prior to the date falling three years after the date upon which the offer for the grant of options is made but shall end in any event not later than ten year from the date of grant of the option subject to the provisions for early termination thereof. The maximum number of shares in respect of which options may be granted shall not exceed 10% of the issued share capital of the Company from time to time.

Details of movements in the share options during the year and share options remaining outstanding as at 31st July, 2001 are as follows:

Date of share options granted	Exercise price per share	At 1st August, 2000	Granted during the year	Exercised during the year	Lapsed during the year	At 31st July, 2001
19th December, 2000	HK\$0.218	–	48,700,000	–	13,300,000	35,400,000

The options were granted to various employees of the Company and are exercisable from either the date on which the options were granted or the anniversary dates of the employees' respective employment dates to 18th December, 2010.

The aggregate consideration received by the Company during the year for the options granted under the share option scheme was insignificant.

Notes to the Financial Statements

For the year ended 31st July, 2001

24. RESERVES

	Share premium HK\$	(Accumulated losses) retained profit HK\$	Total HK\$
THE GROUP			
Issue of shares	383,783,877	–	383,783,877
Capitalisation	(3,046,667)	–	(3,046,667)
Share issue expenses	(19,671,921)	–	(19,671,921)
Net loss for the period	<u>–</u>	<u>(27,016,274)</u>	<u>(27,016,274)</u>
At 31st July, 2000	361,065,289	(27,016,274)	334,049,015
Net loss for the year	<u>–</u>	<u>(69,059,127)</u>	<u>(69,059,127)</u>
At 31st July, 2001	<u>361,065,289</u>	<u>(96,075,401)</u>	<u>264,989,888</u>
THE COMPANY			
Issue of shares	383,783,877	–	383,783,877
Capitalisation	(3,046,667)	–	(3,046,667)
Share issue expenses	(19,671,921)	–	(19,671,921)
Net profit for the period	<u>–</u>	<u>258,860</u>	<u>258,860</u>
At 31st July, 2000	361,065,289	258,860	361,324,149
Net loss for the year	<u>–</u>	<u>(29,310,368)</u>	<u>(29,310,368)</u>
At 31st July, 2001	<u>361,065,289</u>	<u>(29,051,508)</u>	<u>332,013,781</u>

Under the Companies Law (1998 Revised) of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

In accordance with the Company's Articles of Association, the Company may make a distribution out of share premium account subject to the provision of the Companies Law (1998 Revision) of the Cayman Islands.

Notes to the Financial Statements

For the year ended 31st July, 2001

25. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	1.8.2000 to 31.7.2001 HK\$	13.1.2000 to 31.7.2000 HK\$
Loss before taxation	(73,319,620)	(26,646,758)
Interest income	(21,111,058)	(7,154,991)
Dividend income	(108,274)	–
Interest expenses	8,582,008	723,746
Amortisation and impairment loss of website development costs	24,812,201	1,721,470
Depreciation	1,962,423	679,786
Impairment loss of intangible asset	1,494,884	–
Increase in inventories	(48,636)	–
Decrease (increase) in debtors, deposits and prepayments	64,330,755	(79,361,130)
Increase in investments in securities	(43,533,135)	–
Decrease (increase) in amounts due from the China Rich Group	562,249	(964,766)
(Decrease) increase in creditors and accrued charges	(18,802,630)	28,403,856
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(55,178,833)	(82,598,787)

Notes to the Financial Statements

For the year ended 31st July, 2001

26. ACQUISITION OF SUBSIDIARIES

	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Net assets acquired:		
Plant and equipment	–	6,690,566
Website development costs	–	12,272,592
Intangible asset	–	1,494,884
Investment	–	560,495
Bank balances and cash	–	67,726
Debtors, deposits and prepayments	–	2,140,241
Creditors and accrued charges	–	(731,917)
Minority interests	–	(3,890,977)
	<u>–</u>	<u>18,603,610</u>
Satisfied by:		
Issue of shares	–	13,227,610
Cash	–	5,376,000
	<u>–</u>	<u>18,603,610</u>
Net cash outflow arising on acquisition:		
Cash consideration	–	(5,376,000)
Bank balances and cash acquired	–	67,726
	<u>–</u>	<u>(5,308,274)</u>

The subsidiaries acquired during the period ended 31st July, 2000 contributed approximately HK\$3.6 million of revenue and HK\$28 million of loss before taxation for the period between the date of incorporation and 31st July, 2000.

During the period since acquisition to 31st July, 2000, the subsidiaries acquired had contributed approximately HK\$2 million to the Group's net operating cash outflows, received approximately HK\$1.8 million in respect of returns on investments and servicing of finance and utilised approximately HK\$0.5 million on investing activities.

Notes to the Financial Statements

For the year ended 31st July, 2001

27. ANALYSIS OF CHANGES IN FINANCING ACTIVITIES DURING THE YEAR/PERIOD

	Share capital and share premium HK\$	Obligation under a hire purchase contract HK\$
Issue of shares	374,290,400	–
Issue of shares to acquire Greaterchinaherbs.com Limited	13,227,610	–
Expenses paid in connection with the issue of shares	(19,671,921)	–
Inception of a hire purchase contract	–	310,000
Repayments of amount borrowed	–	(51,667)
	<hr/>	<hr/>
At 31st July, 2000	367,846,089	258,333
Repayments of amount borrowed	–	(258,333)
	<hr/>	<hr/>
At 31st July, 2001	<u>367,846,089</u>	<u>–</u>

28. DEFERRED TAXATION

At the balance sheet date, the major components of the net unrecognised deferred taxation assets (liabilities) are approximately as follows:

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$	HK\$	HK\$	HK\$
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	(610,000)	(670,000)	(610,000)	(527,000)
Estimated tax losses	<u>21,227,000</u>	<u>5,319,000</u>	<u>8,000,000</u>	<u>458,000</u>
	<u>20,617,000</u>	<u>4,649,000</u>	<u>7,390,000</u>	<u>(69,000)</u>

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profit as it is not certain that the tax losses will be utilised in the foreseeable future.

Notes to the Financial Statements

For the year ended 31st July, 2001

28. DEFERRED TAXATION (continued)

The components of unprovided deferred tax credit (charge) for the year/period are approximately as follows:

	THE GROUP	
	2001	2000
	HK\$	HK\$
Tax effect of timing differences because of:		
Difference between tax allowances and depreciation	60,000	(670,000)
Estimated tax losses arising	<u>15,908,000</u>	<u>5,319,000</u>
	<u>15,968,000</u>	<u>4,649,000</u>

29. RELATED PARTY TRANSACTIONS

Other than the amounts due from the China Rich Group as disclosed in note 20, during the year/period, the Group entered into the following transactions with the China Rich Group.

- (i) The Group paid rental of HK\$474,000 (13.1.2000 to 31.7.2000: HK\$184,069) to the China Rich Group. The charge is based on the areas occupied by the Group at a unit rate of HK\$17 per square feet pursuant to the agreement entered into between the parties dated 21st February, 2000. The unit rate per square feet was determined by reference to the market rental transactions similar to this property in January 2000, which was confirmed by a chartered surveyor.
- (ii) The Group paid administrative service fee of HK\$480,000 (31.1.2000 to 31.7.2000: HK\$216,552) to the China Rich Group. The fee is charged at a fixed monthly fee of HK\$40,000 pursuant to the agreement entered into between the parties dated 21st February, 2000. The fee was calculated with reference to the proportion of the estimated time spent by the staff of China Rich Group on the affairs of the Group.
- (iii) The China Rich Group provided qualified Chinese herbalist doctors to handle online enquiries by the users of the Group's website. In respect of the services provided, the Group paid consultant fee of HK\$600,000 (31.1.2000 to 31.7.2000: HK\$438,333) to the China Rich Group. The fee is charged at a fixed monthly fee of HK\$50,000 pursuant to the agreement entered into between the parties dated 11th November, 1999. The fee was calculated with reference to the proportion of the estimated time spent by the doctors.

Notes to the Financial Statements

For the year ended 31st July, 2001

29. RELATED PARTY TRANSACTIONS *(continued)*

- (iv) The Group paid website development costs of HK\$670,000 (13.1.2000 to 31.7.2000: HK\$150,000) to the China Rich Group pursuant to the agreement entered into between the parties dated 3rd January, 2000. The fee was determined at prices agreed between the parties and was similar to terms offered to other clients.

- (v) The Group received advertising fee income of HK\$1,900,000 (13.1.2000 to 31.7.2000: HK\$353,293) from the China Rich Group. The fee was determined at prices agreed between the parties and was similar to terms offered to other clients.

- (vi) The Group received information technology advisory income of HK\$328,822 (13.1.2000 to 31.7.2000: HK\$771,900) from the China Rich Group. The fee was determined at prices agreed between the parties and was similar to terms offered to other clients.

- (vii) During the period ended 31st July, 2000, the Company acquired the entire issued share capital of Greaterchinaherbs.com Limited from the China Rich Group at a consideration of HK\$13,227,610 pursuant to the agreement entered into between the parties dated 18th February, 2000. The consideration was based on the costs spent by the China Rich Group in developing the website – www.greaterchinaherbs.com.

Notes to the Financial Statements

For the year ended 31st July, 2001

30. LEASE COMMITMENTS

At the balance sheet date, the Group and the Company had the following future minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Operating leases which expires:		
– within one year	221,000	–
– in the second to fifth year inclusive	852,000	629,000
	<u>1,073,000</u>	<u>629,000</u>

31. CAPITAL COMMITMENTS

THE GROUP

	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Capital expenditure in respect of the development of website application and infrastructure contracted for but not provided for in the financial statements	<u>–</u>	<u>490,000</u>

The Company did not have any significant capital commitment at the balance sheet date.

Notes to the Financial Statements

For the year ended 31st July, 2001

32. RETIREMENT BENEFITS SCHEME

The Group did not operate any retirement benefits schemes for its employees or its directors during the period ended 31st July, 2000.

Since 1st December, 2000, the Group has operated a pension scheme under the rules and regulations of the Mandatory Provident Fund Schemes Ordinance (“MPF Scheme”) for all employees in Hong Kong. The assets of the MPF Scheme are held separately in an independently managed fund. The Group has followed the minimum statutory contribution requirement of 5% of eligible employees’ relevant aggregate income. The contributions are charged to the income statement as incurred. No forfeited contribution is available to reduce the contribution payable in future years.

33. POST BALANCE SHEET EVENT

As indicated on the Company’s announcement dated 18th September, 2001, the directors had informed all shareholders of the Group’s intention to pursue and expand into other off-line businesses related to the promotion of traditional Chinese medicine, Chinese herbs and quality lifestyles. The Group’s proposed expansion to include an off-line traditional Chinese medicine business (including nutraceutical and herbal products) will be subject to shareholders’ approval in a general meeting to be convened for such purpose. A circular containing details of the Group’s proposed expansion will be dispatched to shareholders as soon as practicable.

Financial Summary

	(Note 1)			(Note 2)	
	1998	1999	2000	13.1.2000	
	HK\$	HK\$	HK\$	to	(Note 2)
				31.7.2000	2001
				HK\$	HK\$
Turnover	–	–	3,205,239	3,205,239	6,769,009
Cost of sales	–	–	(648,690)	(648,690)	(89,431)
Gross profit	–	–	2,556,549	2,556,549	6,679,578
Other revenue	–	–	8,547,260	8,547,260	21,364,896
Administrative and other operating expenses	(1,126,622)	(1,414,652)	(16,722,235)	(13,686,821)	(72,343,735)
Impairment losses	–	–	–	–	(20,438,351)
Slotting fee	–	–	(23,340,000)	(23,340,000)	–
Loss from operations	(1,126,622)	(1,414,652)	(28,958,426)	(25,923,012)	(64,737,612)
Finance costs	–	–	(723,746)	(723,746)	(8,582,008)
Loss before taxation	(1,126,622)	(1,414,652)	(29,682,172)	(26,646,758)	(73,319,620)
Taxation	–	–	–	–	–
Loss before minority interests	(1,126,622)	(1,414,652)	(29,682,172)	(26,646,758)	(73,319,620)
Minority interests	–	–	(369,516)	(369,516)	4,260,493
Net loss for the year/period	<u>(1,126,622)</u>	<u>(1,414,652)</u>	<u>(30,051,688)</u>	<u>(27,016,274)</u>	<u>(69,059,127)</u>

Notes:

- The combined results of the Group for the each of the three years ended 31st July, 2000 have been prepared on the basis that the current group structure had been in existence throughout each of the three years ended 31st July, 2000 and on the basis that the Group had operated the website business – www.greaterchinaherbs.com throughout each of the three years ended 31st July, 2000.

The combined results of the Group for each of the two years ended 31st July, 1999 presented above have been extracted from the Company's prospectus dated 30th March, 2000.

- The results for the period from 13th January, 2000 to 31st July, 2000 and for the year ended 31st July, 2001 have been extracted from the consolidated income statement as set out on page 27.
- The Company was incorporated in the Cayman Islands on 13th January, 2000. Accordingly, the consolidated balance sheets of the Group at 31st July, 2000 and 2001 are set out on page 28.