



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

Interim Report
for the period from
1st August, 2001
to 31st January, 2002
由二零零一年八月一日至
二零零二年一月三十一日
之中期業績報告

2001-2002

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This document, for which the directors of GreaterChina Technology Group Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to GreaterChina Technology Group Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this document is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), we hereby present the interim unaudited results for GreaterChina Technology Group Limited (the "Company") and its subsidiaries (together the "Group") for the period from 1st August, 2001 to 31st January, 2002 (the "Period").

The mission of the Group is to become one of the largest providers of interactive contents on the Internet in the health and lifestyle sectors. The Group is focused on providing a balanced portfolio using both on-line and off-line technologies to explore possible ventures to promote premium and quality lifestyle for our community. During the Period, the Group has set up a health product division to develop traditional Chinese medicine and Chinese herbs into high quality and safe health supplements with the assistance of advanced biotechnology in which it maintains stable chemical ingredients and efficacies of which most traditional Chinese medicine is lacking.

During the Period, the management of the Group continued to exercise stringent financial controls and subsequently succeeded in achieving a net profit of approximately HK\$1.2 million.

FINANCIAL REVIEW

For the Period, the Group recorded a total revenue of HK\$27.1 million of which HK\$9 million was contributed from the Group's core business activities, HK\$8.6 million from business activities relating to Chinese herbs and HK\$9.5 million from interest income and other sundries. The Group has managed to expand its business off-line in relation to the research and development, marketing and distribution of traditional Chinese medicine and Chinese herbs, thus enhancing the Group's revenue base with a net profit of HK\$1,206,753, equivalent to approximately 0.18 cents per share.

Except for the investment in fund, listed equity securities and marketable bonds which the 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 Period.

The current ratio of the Group was 2.08 as at the end of the Period compared to 2.52 as at 31st July, 2001. The gearing ratio, defined as the ratio of total borrowings to total assets, was 39% as compared to 36% as at 31st July, 2001. The increase is mainly due to the implementation of our business plan and successful brand building of the Group. The Group's borrowings comprise mainly short term loans and overdrafts which amounted to HK\$183.6 million as at the end of the Period and are wholly secured by bank deposits. The Group has no net exposure to its bankers given that the Group's cash deposits at bank exceed the amount of its bank borrowings. In view of the bank deposits and the credit facilities granted and the fact that the Group has no non-current liabilities for the Period, the Directors consider the Group is in a healthy liquidity position.

Major currencies used for the Group's transactions were Hong Kong Dollars and US Dollars. As Hong Kong Dollars are pegged to the US Dollars, there was no significant currency exposure of the Group. Moreover, as the interest charges on the Group's borrowings were based on the interest rates in respect of the Company's deposits, the Group had no significant interest exposure.

As at the end of the Period, the Group has operating lease commitments for various offices of the Group amounting to not more than HK\$1 million. There was no other significant capital commitment of the Group as at the end of the Period.

The Group employed 20 full time employees as at 31st January, 2002. Remuneration of the staff comprised 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 as at 31st January, 2002 was HK\$273 million, equivalent to approximately HK\$0.40 per share.

BUSINESS REVIEW

The Group is currently a provider of interactive healthcare and lifestyle contents on the internet and recently it has expanded its business into off-line businesses in relation to the research and development, manufacturing, marketing and distribution of a new line of traditional Chinese medicine, Chinese herbs and quality lifestyles.

During the Period, the Company has achieved the following objectives:

- Successful brand-building;
- Revenue growth from HK\$3 million (for the six months period ended 31st January, 2001) to HK\$17.5 million (for the Period);
- Strong financial position;
- Successful launching of e-commerce platform www.sensesshop.com in the People's Republic of China ("PRC");
- Commencement of Modules I and II of the traditional Chinese medicine joint on-line education programme with the Chinese University of Hong Kong;
- Soft launching of the Group's first flagship herbal product HERBSnSENSES™ Cordyceps in both Hong Kong and US markets;
- Marketing and distribution of HERBSnSENSES™ Cordyceps via our website www.sensesshop.com and other healthcare channels;
- Collaborations with other foreign universities in the field of research and clinical trials.

FUTURE PLANS AND DEVELOPMENT

In the coming months, in addition to its on-line business, the Group will continue to focus its efforts and resources in the following areas:

- Setting up a Chinese Medicinal Fungal Genomics Laboratory (CMF-Genlab);
- Official launching of HERBSnSENSES™ Cordyceps and its extended formula in Hong Kong via the Group's on-line concept store and other healthcare channels;
- Official launching of HERBSnSENSES™ Cordyceps and its extended formula in US and other countries;
- Obtaining licensing and health regulatory approval in PRC, Malaysia, Singapore, Thailand, Indonesia, Phillipines, Japan and Korea;
- Research and development in the search of value added therapeutic products in the advancement of the quality of Cordyceps;
- Research and development in other traditional Chinese medicine (including nutraceutical, herbal and pharmaceutical) product lines either in co-operation with external research institutions or in-house specialists;
- Feasibility studies in relation to the setting up of a GMP (Good Manufacturing Practice) facility in Hong Kong;
- Commencement of Modules III and IV of the traditional Chinese medicine joint on-line education programme with the Chinese University of Hong Kong;
- Collaborations with foreign institutions and universities in the field of research and clinical trials.

APPRECIATION

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

By Order of the Board
Kelly Cheng
Chairman and Chief Executive Officer

8th March, 2002

COMPARISON BETWEEN PROPOSED REVISED BUSINESS OBJECTIVES AS PUBLISHED IN THE CIRCULAR ISSUED BY THE COMPANY DATED 24TH OCTOBER, 2001 AND ACTUAL PERFORMANCE

FROM 1ST AUGUST, 2001 TO 31ST JANUARY, 2002

Proposed

Actual

ON-LINE PROVISION OF INTERACTIVE HEALTHCARE AND LIFESTYLE CONTENTS

Content development

Launch content known as “Acupuncture” on greaterchinaherbs.com

Contents for “Acupuncture” is under review and will be included in a future module of the on-line education programme

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

Research and development in spearheading health content is carried out with the assistance from the Chinese University of Hong Kong

Continue to sponsor research and development on content relating to ladiesasia.com and 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 e-commerce development

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

Continue to align with more partners for e-commerce on-line shopping

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

Product and technology development and enhancement

Continue to explore new products and technology to support the Group’s websites with advanced technology, products and development

Not yet achieved, the Group is evaluating the features and acceptance of different technologies and products

Develop and deploy interactive multimedia channels including discussion forum, chat rooms, learning space device and video over Internet to provide on-line medical health and consultation services

The Group is evaluating the costs of using different service providers

Revamp the Group's website to prepare for the launch of the on-line education programme

Modules I and II of the on-line education programme were commenced in January, 2002 on a site *www.scs.cuhk.edu.hk/tcm* jointly developed by the Company and the Chinese University of Hong Kong. Other modules are scheduled to be launched in May and September of 2002

Market penetration

Continue to organize roadshows and exhibitions, sponsorship, etc. on the Group's websites

The Group has not organised roadshows and exhibitions, sponsorship, etc on the Group's website. Instead, the Group has promoted its websites through placing advertisement in different medias

Promote and sponsor full advertising campaigns on ladiesasia.com in Hong Kong, PRC, US, Japan and Korea through on-line advertising, participation in seminars and distribution of promotional materials

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

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

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

Commence promotion campaigns in Hong Kong through the Group's website/ advertising agents and various media

Promotion plan is under construction

Resources employment

Increase marketing staff (1)

One person

Employ project manager (1)

None

Increase content development team (1)

None

Employ database team (1)

None

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

OFF-LINE BUSINESS OF TRADITIONAL CHINESE MEDICINE

Research and development

Perform testing on the traditional Chinese medicine products

Testing was conducted through the cooperation of the Chinese University of Hong Kong and SGS Hong Kong Limited

Continue to source refined traditional Chinese medicine and herbs for testing and future production of traditional Chinese medicine products

Traditional Chinese medicinal formulae were acquired and testing of those formulae have been carried out

Launch first product under brandname developed by the Group or using third party brandnames

The Group has launched the sale of pure Cordyceps capsules under the Group's brandname "HERBSnSENSES™"

Manufacturing

Engage GMP certified pharmaceutical manufacturing company to manufacture first nutraceutical product

Pharmaceutical manufacturing company with GMP standard was engaged to produce the Group's first nutraceutical product, pure Cordyceps

Discuss with potential GMP factory for future cooperation opportunity

Discussions with various factories with GMP standard were carried out

Distribution

Engage major distribution agents in Hong Kong to establish off-line distribution network

Products of the Group are being sold at certain chain stores in Hong Kong

Market penetration

Liaise with marketing agent to roll-out the promotion campaign and the launch of the Group's traditional Chinese medicine product in Hong Kong

Soft launch of the first product was carried out since December, 2001. A major promotion campaign will be carried out from March, 2002

Human resources employment

Employ additional research and development staff

Research team of the Chinese University of Hong Kong is engaged to carry out the research and development function for the Group. The Group is also considering to employ consultants on a worldwide basis to carry out its research and development

REVISED USE OF PROCEEDS FROM ISSUANCE OF NEW SHARES

	Proposed <i>HK\$</i>	Actual <i>HK\$</i>
Content translation and product development	2,375,000	1,160,000
E-commerce development	1,474,000	4,510,000
Promotion and marketing	10,483,000	560,000
Maintenance and operation	12,968,000	13,670,000
	<u>27,300,000</u>	<u>19,900,000</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 the overall economy, the Group continues to implement cost-control measures which have resulted in the actual costs incurred to implement the Group's business activities being lower than envisaged in the circular issued by the Company dated 24th October, 2001 in relation to the proposed material change to the general character or nature of the business of the Group. 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 implementing its business plan.

RESULTS

The Board of Directors (the "Board") of GreaterChina Technology Group Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the period from 1st November, 2001 to 31st January, 2002 (the "Quarterly Period") and from 1st August, 2001 to 31st January, 2002 (the "Period") together with the comparative unaudited consolidated results for the corresponding periods in 2001 as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE THREE MONTHS PERIOD FROM 1ST NOVEMBER, 2001 TO 31ST JANUARY, 2002
AND THE SIX MONTHS PERIOD FROM 1ST AUGUST, 2001 TO 31ST JANUARY, 2002

		For the three months ended 31st January, 2002		For the six months ended 31st January, 2002	
		From 1st November, 2001 to 31st January, 2002 (unaudited) HK\$	From 1st November, 2000 to 31st January, 2001 (unaudited) HK\$	From 1st August, 2001 to 31st January, 2002 (unaudited) HK\$	From 1st August, 2000 to 31st January, 2001 (unaudited) HK\$
Turnover	3	11,152,933	1,449,281	17,573,919	3,003,531
Cost of sales		<u>(3,833,749)</u>	<u>(12,587)</u>	<u>(6,083,749)</u>	<u>(14,075)</u>
Gross profit		7,319,184	1,436,694	11,490,170	2,989,456
Other revenue	4	4,643,953	5,680,729	9,545,397	11,303,717
Administrative and other operating expenses		<u>(6,482,282)</u>	<u>(24,799,775)</u>	<u>(13,309,139)</u>	<u>(32,629,527)</u>
Profit (loss) from operations	5	5,480,855	(17,682,352)	7,726,428	(18,336,354)
Finance costs		<u>(4,864,856)</u>	<u>(2,361,307)</u>	<u>(6,519,675)</u>	<u>(3,730,757)</u>
Profit (loss) before taxation		615,999	(20,043,659)	1,206,753	(22,067,111)
Taxation	6	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit (loss) before minority interests		615,999	(20,043,659)	1,206,753	(22,067,111)
Minority interests		<u>—</u>	<u>185,274</u>	<u>—</u>	<u>185,274</u>
Net profit (loss) for the period		<u>615,999</u>	<u>(19,858,385)</u>	<u>1,206,753</u>	<u>(21,881,837)</u>
Profit (loss) per share	7	<u>0.09 cent</u>	<u>(2.93 cents)</u>	<u>0.18 cent</u>	<u>(3.23 cents)</u>

Sales of goods and the related cost of sales for the period from 1st November, 2000 to 31st January, 2001 and from 1st August, 2000 to 31st January, 2001 have been reclassified from other revenue and administrative and other operating expenses in conformity to the current period's presentation.

CONSOLIDATED BALANCE SHEET

AS AT 31ST JANUARY, 2002

		31st January, 2002 (unaudited)	31st July, 2001 (audited)
	Notes	HK\$	HK\$
NON-CURRENT ASSETS			
Plant and equipment	8	8,328,715	9,405,546
Intellectual properties	9	50,500,000	–
Investment	10	560,495	560,495
		<u>59,389,210</u>	<u>9,966,041</u>
CURRENT ASSETS			
Inventories – finished goods at cost		3,588,410	48,636
Debtors, deposits and prepayments	11	71,601,951	40,816,105
Investments in securities	12	33,082,760	43,533,135
Amounts due from the China Rich Group	13	530,953	402,517
Bank deposits secured for credit facilities		224,453,318	194,252,518
Bank balances and cash		77,544,135	154,706,277
		<u>410,801,527</u>	<u>433,759,188</u>
CURRENT LIABILITIES			
Creditors and accrued charges	14	13,582,412	10,758,057
Bank loans – due within one year, secured	15	66,595,470	44,252,518
Bank overdrafts, secured	15	117,035,414	116,943,966
		<u>197,213,296</u>	<u>171,954,541</u>
NET CURRENT ASSETS			
		<u>213,588,231</u>	<u>261,804,647</u>
		<u>272,977,441</u>	<u>271,770,688</u>
CAPITAL AND RESERVES			
Share capital	16	6,780,800	6,780,800
Reserves	17	266,196,641	264,989,888
		<u>272,977,441</u>	<u>271,770,688</u>
MINORITY INTERESTS			
		<u>–</u>	<u>–</u>
		<u>272,977,441</u>	<u>271,770,688</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS PERIOD FROM 1ST AUGUST, 2001 TO 31ST JANUARY, 2002

	From 1st August, 2001 to 31st January, 2002 (unaudited) HK\$
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(20,309,781)
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	1,736,879
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<u>(50,822,840)</u>
NET CASH OUTFLOW BEFORE FINANCING AND DECREASE IN CASH AND CASH EQUIVALENTS	(69,395,742)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>187,762,311</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>118,366,569</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS	
Bank deposits secured for credit facilities	224,453,318
Bank balances and cash	77,544,135
Bank loans and overdrafts	<u>(183,630,884)</u>
	<u><u>118,366,569</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 GEM on 6th April, 2000. The Company is an investment holding company. The principal activities of the Group are the provision of on-line content and the provision of portal development and information technology consultation services. From November 2001, the Group is also engaged in off-line businesses in relation to the research and development, manufacturing, marketing and distribution of a new line of traditional Chinese medicine products.

2. Significant accounting policies

The unaudited consolidated financial statements have been prepared under the historical cost convention.

The unaudited consolidated financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" except that, in this first year of implementation of the standard, as permitted by the GEM Listing Rules, no comparative figures have been presented for the unaudited condensed consolidated cash flow statement.

The consolidated financial statements for the period from 1st August, 2001 to 31st January, 2002 are unaudited and have been reviewed by the audit committee of the Company.

The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31st July, 2001.

3. Turnover and segment information

The Group's turnover and contribution to profit (loss) before taxation for the period from 1st August, 2001 to 31st January, 2002, analyzed by principal activity and geographical market were as follows:

	Turnover		Contribution to profit (loss) before taxation	
	From 1st August, 2001 to 31st January, 2002 (unaudited) HK\$	From 1st August, 2000 to 31st January, 2001 (unaudited) HK\$	From 1st August, 2001 to 31st January, 2002 (unaudited) HK\$	From 1st August, 2000 to 31st January, 2001 (unaudited) HK\$
By principal activity:				
Advertising income	2,310,333	1,400,000	2,310,333	1,400,000
Portal development and information technology advisory income	3,698,780	1,470,350	3,698,780	1,470,350
Consultation income	2,928,493	100,000	2,928,493	100,000
Sales of goods	8,636,313	33,181	2,552,564	19,106
	<u>17,573,919</u>	<u>3,003,531</u>	<u>11,490,170</u>	<u>2,989,456</u>
Other revenue			9,545,397	11,303,717
Finance costs			(6,519,675)	(3,730,757)
Administrative and other operating expenses			<u>(13,309,139)</u>	<u>(32,629,527)</u>
			<u>1,206,753</u>	<u>(22,067,111)</u>
By geographical market:				
Hong Kong	13,083,763	3,003,531	7,000,015	2,989,456
United States	4,490,156	-	4,490,155	-
	<u>17,573,919</u>	<u>3,003,531</u>	<u>11,490,170</u>	<u>2,989,456</u>
Other revenue			9,545,397	11,303,717
Finance costs			(6,519,675)	(3,730,757)
Administrative and other operating expenses			<u>(13,309,139)</u>	<u>(32,629,527)</u>
			<u>1,206,753</u>	<u>(22,067,111)</u>

The cost of inventories recognized as an expense during the Period amounted to HK\$6,083,749 (1.8.2000 to 31.1.2001: HK\$14,075).

4. Other revenue

	From 1st November, 2001 to 31st January 2002 HK\$	From 1st November, 2000 to 31st January 2001 HK\$	From 1st August, 2001 to 31st January 2002 HK\$	From 1st August, 2000 to 31st January 2001 HK\$
Interest income	3,423,832	5,680,729	8,246,354	11,303,717
Dividend income	-	-	10,200	-
Sundry income	<u>1,220,121</u>	<u>-</u>	<u>1,288,843</u>	<u>-</u>
	<u>4,643,953</u>	<u>5,680,729</u>	<u>9,545,397</u>	<u>11,303,717</u>

5. Profit (loss) from operations

	From 1st November, 2001 to 31st January, 2002 HK\$	From 1st November, 2000 to 31st January, 2001 HK\$	From 1st August, 2001 31st January, 2002 HK\$	From 1st August, 2000 31st January, 2001 HK\$
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Profit (loss) from operations has been arrived at after charging:

Amortization of website development costs	-	1,786,203	-	2,305,180
Depreciation on:				
Owned assets	726,944	425,778	1,438,213	857,234
An asset held under a hire purchase contract	-	-	-	12,917
	726,944	425,778	1,438,213	870,151

Staff costs including directors' remuneration:

Salaries and allowances	2,087,297	2,776,601	4,465,785	5,674,228
Retirement benefits scheme contributions	80,740	57,974	168,863	57,974
	2,168,037	2,834,575	4,634,648	5,732,202

6. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group did not have any assessable income for the Quarter Period and Period (1.11.2000 to 31.1.2001 and 1.8.2000 to 31.1.2001: nil).

There was no significant unprovided deferred taxation during the Quarter Period and Period or at 31st January, 2002.

7. Profit (loss) per share

The calculation of the basic profit (loss) per share is based on the net profit for the Quarter Period and Period of HK\$615,999 and HK\$1,206,753 respectively (1.11.2000 to 31.1.2001 and 1.8.2000 to 31.1.2001: loss of HK\$19,858,385 and HK\$21,881,837) and on the weighted average of 678,080,000 shares in issue during the Quarter Period and Period (1.11.2000 to 31.1.2001 and 1.8.2000 to 31.1.2001: 678,080,000 shares). No diluted profit per share for the Quarter Period and Period have been presented because the effect of exercising the Company's outstanding share options and all the potential ordinary shares of a subsidiary is anti-dilutive. No diluted loss per share for the period from 1st November, 2000 to 31st January, 2001 and 1st August, 2000 to 31st January, 2001 were presented because the effect of exercising the Company's outstanding share options and an option to subscribe for additional share of a subsidiary was anti-dilutive.

8. Plant and equipment

	Leasehold improvements HK\$	Plant and machinery under installation HK\$	Office equipment HK\$	Motor vehicle HK\$	Furniture and fixtures HK\$	Total HK\$
COST						
At 1st August, 2001	2,521,250	4,794,175	4,146,279	310,000	276,051	12,047,755
Addition	-	-	508,840	-	14,000	522,840
Disposal	-	-	-	(310,000)	-	(310,000)
	<u>2,521,250</u>	<u>4,794,175</u>	<u>4,655,119</u>	<u>-</u>	<u>290,051</u>	<u>12,260,595</u>
DEPRECIATION						
At 1st August, 2001	681,700	-	1,741,385	129,167	89,957	2,642,209
Provided for the period	630,312	-	740,573	19,375	47,953	1,438,213
Eliminated on disposals	-	-	-	(148,542)	-	(148,542)
	<u>1,312,012</u>	<u>-</u>	<u>2,481,958</u>	<u>-</u>	<u>137,910</u>	<u>3,931,880</u>
NET BOOK VALUES						
At 31st January, 2002	<u>1,209,238</u>	<u>4,794,175</u>	<u>2,173,161</u>	<u>-</u>	<u>152,141</u>	<u>8,328,715</u>
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>

9. Intellectual properties

The intellectual properties represents the Group's investment in not less than 20 traditional Chinese medicine formulae and certain protocols for herbal medicine.

10. Investment

The investment represents the Group's 18.75% equity interest 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 investment equals to its cost.

11. Debtors, deposits and prepayments

	31st January, 2002 (unaudited) HK\$	31st July, 2001 (audited) HK\$
Debtors and other receivables	7,594,395	3,440,008
Deposits for investment projects	40,000,000	30,000,000
Utility and other deposits	18,203,544	556,097
Prepayments	5,804,012	6,820,000
	<u>71,601,951</u>	<u>40,816,105</u>

The policy of the Company is to offer credit terms ranging from 30 to 90 days. The aging analysis of trade debtors and other receivables is stated as follows:

	31st January, 2002 (unaudited) HK\$	31st July, 2001 (unaudited) HK\$
Aged:		
0 to 30 days	1,719,395	3,440,008
31 to 60 days	1,000,000	–
61 to 90 days	4,875,000	–
	<u>7,594,395</u>	<u>3,440,008</u>

12. Investments in securities

	31st January, 2002 (unaudited) HK\$	31st July, 2001 (audited) HK\$
Fund investment, at market value	<u>23,074,740</u>	<u>–</u>
Trading securities, at market value		
Listed equity securities in Hong Kong	10,008,020	3,984,600
Marketable bonds outside Hong Kong	–	39,548,535
	<u>10,008,020</u>	<u>43,533,135</u>
	<u>33,082,760</u>	<u>43,533,135</u>

13. Amounts due from the China Rich 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 Holdings Limited and certain of its subsidiaries (the "China Rich Group").

14. Creditors and accrued charges

	31st January, 2002 (unaudited) HK\$	31st July, 2001 (audited) HK\$
Trade and other creditors	5,000,000	–
Accrued charges	<u>8,582,412</u>	<u>10,758,057</u>
	<u>13,582,412</u>	<u>10,758,057</u>

The trade and other creditors as at 31st January, 2002 is due within 31 to 60 days.

15. Bank loans and overdrafts

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

16. Share capital

	Number of shares	Share capital HK\$
Shares of HK\$0.01 each		
Authorized:		
At 31st July, 2001 and 31st January, 2002	<u>2,000,000,000</u>	<u>20,000,000</u>
Issued and fully paid:		
At 31st July, 2001 and 31st January, 2002	<u>678,080,000</u>	<u>6,780,800</u>

17. Reserves

	Share premium HK\$	Accumulated losses HK\$	Total HK\$
At 1st August, 2001	361,065,289	(96,075,401)	264,989,888
Net profit for the period	<u>–</u>	<u>1,206,753</u>	<u>1,206,753</u>
At 31st January, 2002	<u>361,065,289</u>	<u>(94,868,648)</u>	<u>266,196,641</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.

18. Related party transactions

Other than the amounts due from the China Rich Group as disclosed in note 13, during the Period, the Group entered into the following transactions with the China Rich Group:

- (i) The Group paid rental of HK\$630,000 (1.8.2000 to 31.1.2001: HK\$204,000) to the China Rich Group. The amount of HK\$204,000 (1.8.2000 to 31.1.2001: HK\$204,000) was 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. The balance of HK\$426,000 was as determined at prices agreed between the parties and was similar to terms offered to other clients.
- (ii) The Group paid administrative service fee of HK\$240,000 (1.8.2000 to 31.1.2001: HK\$240,000) 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 on-line enquiries by the users of the Group's website. In respect of the services provided, the Group paid consultant fee of HK\$161,667 (1.8.2000 to 31.1.2001: HK\$300,000) 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. The payment was terminated on 7th November, 2001 as all the doctors were resigned.
- (iv) The Group paid website development costs of HK\$240,000 (1.8.2000 to 31.1.2001: HK\$260,000) 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\$435,000 (1.8.2000 to 31.1.2001: HK\$1,360,000) 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\$308,885 (1.8.2000 to 31.1.2001: HK\$25,350) from the China Rich Group. The fee was determined at prices agreed between the parties and was similar to terms offered to other clients.

MOVEMENT OF RESERVE

There have been no movements in the reserves of the Group during the Quarter Period and the Period except for the profit recognized during the Quarter Period and the Period.

INTERIM DIVIDEND

The directors do not recommend the payment of interim dividend for the period from 1st August, 2001 to 31st January, 2002 (1.8.2000 to 31.1.2001: nil).

DIRECTORS' AND CHIEF EXECUTIVES INTERESTS IN SHARES AND OPTIONS

(i) Shares

As at 31st January, 2002, 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:

Share 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	71,574,000

(ii) Options

Options in the Company

Name of director	Date of grant	Exercise price HK\$	Number of share options			
			Outstanding as at 1.8.2001	Granted	Exercised	Outstanding as at 31.1.2002
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 1.8.2001	Granted	Exercised	Outstanding as at 31.1.2002
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 of 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 Period 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.

Other than as disclosed above and nominee shares in certain subsidiaries held in trust for the Company, at 31st January, 2002, 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 corporation as defined by the SDI Ordinance.

OUTSTANDING SHARE OPTIONS

As at 31st January, 2002, options to subscribe for an aggregate of 33,100,000 shares of the Company (which includes the options granted to Ms. Cheng Kit Yin, Kelly and Mr. Mak Shiu Chung, Godfrey) had been granted to certain employees pursuant to the Company's share options scheme passed by the sole shareholder of the Company on 21st February, 2000 (the "Existing Scheme") under which executive directors and employees of the Company or any of its subsidiaries may be granted options to subscribe for shares in the Company. No options were exercised during the Period. Details of the outstanding share option are as follows:

Number of share options	Number of employees	Subscription price per share HK\$	Exercise period
33,100,000	14	0.218	From date of grant or first anniversary date of employment to 18th February, 2010

The options may be exercised at any time within the exercise period provided that the options have been vested. Generally, the options are vested in different tranches and lapse where the grantee ceases to be employed by the Group.

On 31st December, 2001, the Company announced that the Board proposed to seek approval of the shareholders of the Company for the termination of the Existing Scheme and the adoption of a new share option scheme for the benefit of the full time employees and directors of the Group and other eligible participants in compliance with the amended Chapter 23 of the GEM Listing Rules. A circular containing further details is under preparation and will be despatched to the shareholders as soon as practicable.

SUBSTANTIAL SHAREHOLDERS

As at 31st January, 2002, 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 January, 2002.

SPONSOR'S INTEREST

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

As of 31st January, 2002, neither EYCFL nor its directors, employees or their associates had any interest in any securities of the Company or any of its associated corporations.

COMPETING INTERESTS

For the period from 1st August, 2001 to 31st January, 2002, 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 interest which any such person has or may have with the Group.

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 Kwoo 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.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied throughout the period from 1st August, 2001 to 31st January, 2002 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.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from 1st August, 2001 to 31st January, 2002.