

Quarterly Report

For the period
From 1st August, 2002
to 31st October, 2002
由二零零二年八月一日至
二零零二年十月三十一日
之季度報告

2002



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

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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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 first quarter unaudited results of GreaterChina Technology Group Limited (the "Company") and its subsidiaries (together the "Group") for the period from 1st August, 2002 to 31st October, 2002 (the "First Quarter Period").

The mission of the Group is to become one of the leading 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. The Group has set up a health product division to develop traditional Chinese medicine and Chinese herbs into high quality and safe health supplements. The Group's health products division utilises advanced biotechnology to ensure the consistent efficacy of its products and to maintain the stability of the products' chemical ingredients and with a view to ensuring that the Group's products are of a higher quality than most traditional Chinese medicine.

During the First Quarter Period, the management of the Group continues to exercise stringent financial controls over the operations and at the same time utilising its best efforts to achieve the brand building of its flagship herbal product HERBSnSENSES™ and getting maximum return to the shareholders.

FINANCIAL REVIEW

For the First Quarter Period under review, the Group recorded a total revenue of HK\$5.2 million of which HK\$2.5 million was contributed from the sales of nutraceutical Chinese herbal products and related services, HK\$0.5 million from advisory and consultation services and HK\$2.1 million from interest income and other sundries. For the comparative figures in the corresponding period in last year, the Group earned a total revenue of HK\$9 million of which HK\$1.1 million was contributed from advertising income, HK\$2.6 million from advisory and consultation services and HK\$5.4 million from interest income. The Group continues to expand its business off-line in relation to the research and development, marketing and distribution of traditional Chinese medicine and Chinese herbs in the First Quarter Period both in Hong Kong and in the United States. Decrease in the overall revenue was due to the completion of various consultation services and a reduction on interest income which was mainly due to the decrease in interest rate since mid-2001. Furthermore, additional expenses which mainly comprise advertising and brand building expenses of HK\$3 million and amortisation costs on intangible assets of HK\$0.7 million were incurred, thus resulting in a net loss of HK\$8.7 million for the First Quarter Period as compared to a net profit of HK\$590,000 in the corresponding period in last year.

BUSINESS REVIEW

The Group is currently a provider of interactive healthcare and lifestyle contents on the internet and 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 First Quarter Period, the Company has achieved the following objectives:

- Successful brand-building;
- Strong financial position;
- Official 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.herbsnsenses.com*, *www.senseshop.com* and other healthcare distribution channels;
- Collaborations with other foreign universities in the field of research and clinical trial;
- Successful setting up of a research and development laboratory – Chinese Medicinal Fungal (CMF) Proteomics Laboratory.

FUTURE PLANS AND DEVELOPMENT

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

- Official launching of HERBSnSENSES™ Cordyceps and its extended formula in other regions of the US and other countries such as the European community;
- Obtaining licenses and health regulatory approval in the PRC, Malaysia, Singapore, Thailand, Indonesia, Philippines, Japan and Korea;
- Research and development in the search of value added therapeutic products to advance and enhance the Group's Cordyceps product range;
- 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;
- Collaboration with local and foreign institutions and universities in the field of research and clinical trials;
- Feasibility studies in relation to the setting up of GMP facilities in Hong Kong and PRC.

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

11th December, 2002

CONSOLIDATED RESULTS

For the three months period from 1st August, 2002 to 31st October, 2002

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

		For the three months ended 31st October,	
		2002 (unaudited) HK\$	2001 (unaudited) HK\$
	Notes		
Turnover	2	3,151,856	3,620,575
Cost of sales		<u>(950,327)</u>	<u>-</u>
Gross profit		2,201,529	3,620,575
Other operating income		2,050,114	5,451,855
Administrative and other operating expenses		<u>(12,329,283)</u>	<u>(6,826,857)</u>
Profit (loss) from operations	3	<u>(8,077,640)</u>	2,245,573
Finance costs		<u>(672,171)</u>	<u>(1,654,819)</u>
Profit (loss) before taxation		<u>(8,749,811)</u>	590,754
Taxation	4	<u>-</u>	<u>-</u>
Net profit (loss) attributable to shareholders		<u><u>(8,749,811)</u></u>	<u><u>590,754</u></u>
Earnings (loss) per share	5		
Basic		<u><u>(1.29) cents</u></u>	<u><u>0.09 cents</u></u>

Notes:

1. The Company was incorporated in the Cayman Islands 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 of the Stock Exchange.

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 advisory and consultation services in Hong Kong. From November 2001, the Group is also engaged in the research and development, manufacturing, marketing and distribution of traditional Chinese medicine products.

2. Turnover

The Group's turnover for the period from 1st August, 2002 to 31st October, 2002, analysed by principal activities was as follows:

	For the three months ended	
	31st October, 2002 (unaudited) HK\$	2001 (unaudited) HK\$
Advertising income	-	1,055,333
Advisory and consultation services income	575,317	2,565,242
Sales of goods and related services	2,576,539	-
	<u>3,151,856</u>	<u>3,620,575</u>

Sales of goods and related cost of sales for the three months ended 31st October, 2001 have been reclassified to other operating income as commission income (note 3) in conformity to the current period's presentation.

3. Profit (loss) from operations

	For the three months ended	
	31st October, 2002 (unaudited) HK\$	2001 (unaudited) HK\$
Profit (loss) from operations has been arrived at after charging (crediting):		
Advertising and promotion expenses	3,276,889	191,438
Amortisation of website development costs (included in administrative and other operating expenses)	34,362	-
Amortisation of intangible assets (included in administrative and other operating expenses)	718,750	-
Depreciation	654,205	711,269
Staff costs including directors' remuneration:		
Salaries and allowances	1,842,232	2,356,033
Retirement benefits scheme contributions	30,556	88,123
	1,872,788	2,444,156
Commission income	-	(550,411)
Dividend income	(721,091)	(10,200)
Interest income	(1,329,022)	(4,822,522)
	<u>(1,329,022)</u>	<u>(4,822,522)</u>

4. Taxation

No provision for Hong Kong Profits Tax has been made for the period from 1st August, 2002 to 31st October, 2002 as the Group did not have any assessable income for the period (2001: nil).

There was no significant unprovided deferred taxation during the period from 1st August, 2002 to 31st October, 2002.

5. Earnings (loss) per share

The calculation of the basic loss per share is based on the net loss for the period from 1st August, 2002 to 31st October, 2002 of HK\$8,749,811 (2001: net profit of HK\$590,754) and on the number of shares of 678,080,000 (2001: 678,080,000) in issue during the period.

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

MOVEMENT OF RESERVES

There have been no movements in the reserves of the Group during the period from 1st August, 2002 to 31st October, 2002, except for the net loss recognised and the revaluation deficit on investments in securities during the period of HK\$8,749,811 (2001: HK\$590,754) and HK\$7,244,000 (2001: nil), respectively.

QUARTERLY DIVIDEND

The directors do not recommend the payment of a quarterly dividend for the period from 1st August, 2002 to 31st October, 2002 (2001: nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND OPTIONS

(i) Shares

As at 31st October, 2002, the interests of the directors and the chief executives 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:

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	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 1.8.2002		Outstanding as at 31.10.2002	
			Granted	Exercised	Granted	Exercised
Ms. Cheng Kit Yin, Kelly	19th December, 2000	0.218	16,000,000	-	-	16,000,000
	4th June, 2002	0.234	51,808,000	-	-	51,808,000
Mr. Mak Shiu Chung, Godfrey	19th December, 2000	0.218	7,500,000	-	-	7,500,000
	19th April, 2002	0.234	5,000,000	-	-	5,000,000
Ms. Lau Sio Kuan, Vivian	19th April, 2002	0.234	1,000,000	-	-	1,000,000
Mr. Kam Shing	19th April, 2002	0.234	1,000,000	-	-	1,000,000
Dr. Ngai Sai Ming	19th April, 2002	0.234	5,000,000	-	-	5,000,000
Mr. Heng Kwo Seng	19th April, 2002	0.234	1,000,000	-	-	1,000,000
Dr. Lau Lap Ping	19th April, 2002	0.234	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>

Options in China Rich Holdings Limited

Name of director	Date of grant	Exercise price HK\$	Number of share options			
			Outstanding as at 1.8.2002		Outstanding as at 31.10.2002	
			Granted	Exercised	Granted	Exercised
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	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>

Notes:

1. The exercise prices are adjustable in accordance with the provisions of the share option scheme.
2. No options were exercised or cancelled during the period.

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 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 executives, 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 October, 2002, neither the directors nor the chief executives, 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.

SHARE OPTIONS SCHEMES

Pursuant to an ordinary resolution in writing of the sole shareholder of the Company passed on 21st February, 2000, the Company adopted the old share option scheme (the "Old Scheme") pursuant to which the directors were authorised to grant options to employees of the Company or its subsidiaries, including executive directors of such companies, to subscribe for shares of the Company. Options granted under the Old Scheme will entitle the holder to subscribe for shares from the date of grant up to 20th February, 2010.

As at 31st October, 2002, options to subscribe for an aggregate of 31,300,000 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 Old Scheme. No options were granted or exercised during the period from 1st August, 2002 to 31st October, 2002.

On 8th April, 2002, the Company passed an ordinary resolution regarding the termination of the Old Scheme and adopted a new share option scheme (the "Revised Scheme") for the primary purpose of providing incentive to the full time employees and directors of the Company and other eligible participants in compliance with the amended Chapter 23 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules"). Under the terms of the Revised Scheme, the board of directors of the Company may, at their discretion, grant options to the participants falls within the definition prescribed in the Revised Scheme including the employees and executive directors of the Company or its subsidiaries to subscribe for shares in the Company at a price equal to the highest of (i) the nominal value of the shares; (ii) an amount not less than the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of grant of the options; and (iii) the closing price of the shares on the Stock Exchange on the day of the offer of grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders. Options granted under the Revised Scheme will entitle the holder to subscribe for shares from the date of grant up to 18th April, 2012. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

As at 31st October, 2002, options to subscribe for an aggregate of 70,408,000 shares of the Company representing 10% of the shares of the Company in issue at that date, had been granted to certain directors and employees pursuant to the Revised Scheme. No options were exercised or cancelled during the period from 1st August, 2002 to 31st October, 2002.

Details of the outstanding share options are as follows:

Number of share options	Date of grant	Exercise price per share HK\$	Exercise period
31,300,000 (note 1)	19th December, 2000	0.218	From date of grant or first anniversary date of employment to 20th February, 2010
18,600,000 (note 2)	19th April, 2002	0.234	From date of grant to 18th April, 2012
51,808,000 (note 2)	4th June, 2002	0.234	From date of grant to 18th April, 2012

Notes:

- (1) 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.
- (2) The closing price of the Company's shares and the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately before 19th April, 2002, the date of grant, were HK\$0.23 and HK\$0.234 respectively.

SUBSTANTIAL SHAREHOLDERS

As at 31st October, 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 October, 2002.

COMPETING INTERESTS

For the period from 1st August, 2002 to 31st October, 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 interests 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, Mr. Heng Kwoo Seng and Dr. Lau Lap Ping. 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, 2002 to 31st October, 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 to 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, 2002 to 31st October, 2002.