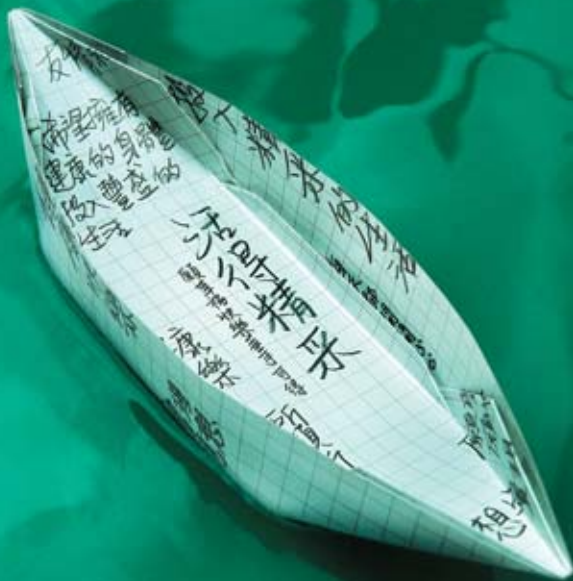


# Interim Report

For the period from  
1st August, 2002 to  
31st January, 2003

由二零零二年八月一日至  
二零零三年一月三十一日  
之中期業績報告

# 2003



**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 interim unaudited results of GreaterChina Technology Group Limited (the "Company") and its subsidiaries (together the "Group") for the period from 1st August, 2002 to 31st January, 2003 (the "Period").

Since November 2001, the Group has expanded its business by producing a range of health supplements with the usage of Traditional Chinese Medicine ("TCM") and Chinese herbs by applying pharmaceutical scientific techniques to TCM remedies. As research and development play a major role in the exploration of TCM, the Group utilises its advanced biotechnology and the support of renowned academic establishments in the Chinese medicinal field to ensure the consistent efficacy of its products and to maintain the stability of the products' chemical ingredients, with a view to ascertain that the products are of higher quality standard than most traditional Chinese medicine.

The mission of the Group is to become a leader in producing TCM health supplements, by using TCM-based ingredients, Western biotechnology and maintaining high international standards by manufacturing under the USA GMP (Good Manufacturing Practice).

The Group is intensely engaged in the study of Proteomics which enables the detection of abnormalities for protein profile in diseases and tissues and apply a TCM/fungal methodology to identify and treat certain life threatening diseases such as leukemia, renal cancer, pancreatic cancer, liver cancer and other genetic diseases in which they are unique in this part of Asia Pacific Region.

During this Period, the Group has further diversified its business into an acquisition of a 80% equity interest in a pharmaceutical manufacturing plant in the People's Republic of China (the "PRC"). In this regard, the Directors consider that the production facilities and the existing product lines of this pharmaceutical manufacturing plant are of such standard as may complement the business development plan of the Group. After the acquisition, having such a strategic and co-operative partner, the Group has fully complied with a vertical integration of its business model, research and product development through its own Chinese Medicinal Fungal ("CMF") Proteomics Laboratory, its manufacturing and processing in the pharmaceutical plant in the PRC and its distribution network in Hong Kong, the PRC and worldwide. Hence, the Group has positioned itself as a leader in this cutting-edge technology in both Chinese herbal and western medicine, broaden its revenue and business base and increase the growth potential and thus enhance the shareholders' worth.

## **FINANCIAL REVIEW**

For the Period under review, the Group recorded a total revenue of HK\$9.2 million of which HK\$5.4 million was contributed from the Group's core business of sales of nutraceutical Chinese herbal products, medicines and related services, HK\$0.8 million from advisory and consultation services and HK\$3 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\$24.8 million of which HK\$2.3 million was contributed from advertising income, HK\$6.6 million from advisory and consultation services and HK\$5.8 million from sales of nutraceutical Chinese herbal products and HK\$10.1 million from interest income and other sundries. 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 were incurred which mainly comprised advertising and brand-building expenses of HK\$9.8 million, amortisation costs on intangible assets of HK\$1.6 million, expenses of HK\$1.6 million in relation to the acquisition of a 80% equity interest in Guangdong Jianlibao Pharmaceutical Co., Ltd., a pharmaceutical production and distribution equity joint venture registered in the PRC (the "JV"), thus resulting in a net loss of HK\$22.3 million for the Period as compared to a net profit of HK\$1.2 million in the corresponding period in last year.

Except for the acquisition of the JV, as refer to the Circular issued by the Company dated 26th November, 2002, there was no material acquisition and disposal of subsidiaries and affiliated companies during the Period.

The acquisition of the JV has a positive impact on the earnings and net assets of the Group. A profit guarantee was made to the Group under the terms and conditions that the earnings before interest, tax and depreciation and amortisation of the JV for each of the two years ending 31st December, 2003 and 31st December, 2004 would not be less than RMB8 million (equivalent to HK\$7.5 million) and RMB12 million (equivalent to HK\$11.3 million), respectively.

The current ratio of the Group was 1.8 as at the end of the Period compared to 1.6 as at 31st July, 2002. The gearing ratio, defined as the ratio of total borrowings to total assets, was 20% as at 31st January, 2003 as compared to 46% as at 31st July, 2002. The decrease is mainly due to the reduction of bank loans and bank overdrafts supported by internal funding from the Group during the Period. The Group's borrowings as at the end of the Period comprised mainly short term loans and overdrafts, which amounted to HK\$43 million and are wholly secured by

bank deposits and certain of the land of the Group. Another five-year unsecured, interest-free loan of HK\$26 million due to a shareholder of the Company was assumed from the acquisition of the JV during the Period. In view of the bank deposits and the credit facilities granted and that the bank borrowings are fully secured, the Directors consider that the Group is in a healthy liquidity position.

Major currencies used for the Group's transactions were Hong Kong Dollars, Renminbi and US Dollars. As Hong Kong Dollars are pegged to the US Dollars and the fiscal policy of the PRC government in relation to Renminbi is stable throughout the years, 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 had operating lease commitments for various offices of the Group amounting to approximately HK\$1.3 million. There was no other significant capital commitment of the Group as at the end of the Period.

As at 31st January, 2003, the bank deposit of HK\$38 million was pledged to secure the bank facilities granted to the Group. Certain of the Group's land situated at the PRC was pledged to a bank to secure bank loans of RMB5 million granted to the Group.

As at the end of the Period, the JV acquired by the Group during the Period secured certain of its land situated at the PRC for a bank loan of RMB20 million borrowed by a minority shareholder of the JV. The details were indicated on the Announcement made by the Company dated 28th February, 2003.

The Group employed 127 full time employees as at 31st January, 2003. 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. Details of the options scheme are provided in the relevant section.

Overall, the net assets value of the Group as at 31st January, 2003 was HK\$250 million, equivalent to approximately HK\$0.31 per share.

## **BUSINESS REVIEW**

The Group is currently engaged in the research and development, manufacturing, marketing and distribution of a new line of traditional Chinese medicine, Chinese herbs, western medicines and healthcare products as well as quality lifestyles. During the Period, the Group has expanded its business into the operation of a pharmaceutical manufacturing plant, thus completed a vertical integration on the entire business.

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

- **RESEARCH & PRODUCT DEVELOPMENT:**
  1. Successful setting up of a research and development laboratory – Chinese Medicinal Fungal (CMF) Proteomics Laboratory;
  2. Collaboration with the Chinese University of Hong Kong, Prince of Wales Hospital in the Study of Immunomodulatory and Anti-Tumor Activities of HERBSnSENSES™ Cordyceps;
  3. Collaboration with the Chinese University of Hong Kong, Chinese Medicinal Fungal (CMF) Proteomics Laboratory in the Study of Anti-Tumor Activities of HERBSnSENSES™ Cordyceps Polysaccharides Platinum; and
  4. Completed product development of the LINGZHI and POLYSACCHARIDES SERIES.
- **OPERATION OF A PHARMACEUTICAL MANUFACTURING PLANT:**
  1. Expanded its business into the acquiring of an operation of a pharmaceutical manufacturing plant and distribution of western medicine in the PRC.
- **DISTRIBUTION OF HERBAL PRODUCT:**
  1. Successful brand-building of HERBSnSENSES™;
  2. Official launching of the Group's first flagship herbal product HERBSnSENSES™ Cordyceps in both Hong Kong and the US markets;

3. Marketing and distribution of HERBSnSENSES™ Cordyceps via our websites *www.herbsnsenses.com*, *www.sensesshop.com* and other healthcare distribution channels;
4. Obtaining licenses and health regulatory approval in the PRC; and
5. Exhibition in Germany in late January 2003.

### ***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:

- RESEARCH & PRODUCT DEVELOPMENT:
  1. Research and development in the search of value added therapeutic products to advance and enhance the Group's Cordyceps product range;
  2. Research and development on other Traditional Chinese Medicine (including nutraceutical, herbal and pharmaceutical) product lines either in cooperation with external research institutions or in-house;
  3. With the Proteomics research, we have targeted to identify 20,000 groups of proteins to set up a "Human Disease Proteoms" database;
  4. Discovery of protein-based marker and drug for diagnostic and therapeutic treatment;
  5. Commencement of human clinical trial on Immunomodulatory and Anti-Tumor Activities of HERBSnSENSES™ Cordyceps conducted at Prince of Wales Hospital; and
  6. Collaboration with local and foreign institutions and universities in the field of research and clinical trials.

- OPERATION OF A PHARMACEUTICAL MANUFACTURING PLANT:
  1. Feasibility studies in relation to the setting up of an international Good Manufacturing Practice (GMP) facility in the existing PRC plant;
  2. Reinforce the brand-awareness of its existing pharmaceutical products and expand its distribution network in the PRC market;
  3. Obtain licenses and health regulatory approval on some of its western medicinal formula in the PRC;
  4. Setting up a manufacturing plant for HERBSnSENSES™ Cordyceps and other product series for the distribution in the PRC; and
  5. Enhance its existing research and development center to upgrade into a more innovative, state-of-the-art laboratory.
- DISTRIBUTION OF HERBAL PRODUCT:
  1. Official launching of HERBSnSENSES™ Cordyceps, HERBSnSENSES™ Lingzhi, HERBSnSENSES™ Polysaccharides in Hong Kong, the PRC, the USA and Europe;
  2. Obtaining licenses and health regulatory approval in the PRC, Malaysia, Singapore, Thailand, Indonesia, Philippines, Japan and Korea;
  3. Commencement of regular seminars on health issues in Hong Kong and the PRC; and
  4. Exhibitions and promotions in Japan, Europe, Korea, the USA and Hong Kong.

### **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 March, 2003



## CONSOLIDATED RESULTS

For the six months period from 1st August, 2002 to 31st January, 2003

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, 2002 to 31st January, 2003 (the "Quarterly Period") and from 1st August, 2002 to 31st January, 2003 (the "Interim Period") together with the comparative unaudited consolidated results for the corresponding periods in 2002 as follows:

	Notes	For the three months ended 31st January,		For the six months ended 31st January,	
		2003 (unaudited) HK\$	2002 (unaudited) HK\$	2003 (unaudited) HK\$	2002 (unaudited) HK\$
Turnover	4	2,990,304	11,152,933	6,142,160	14,773,508
Cost of sales		(784,115)	(3,833,749)	(1,734,442)	(3,833,749)
Gross profit		2,206,189	7,319,184	4,407,718	10,939,759
Other operating income	5	990,668	4,643,953	3,040,781	10,095,808
Administrative and other operating expenses		(16,460,034)	(6,482,282)	(28,789,318)	(13,309,139)
Profit (loss) from operations	5	(13,263,177)	5,480,855	(21,340,819)	7,726,428
Finance costs		(419,860)	(4,864,856)	(1,092,031)	(6,519,675)
Profit (loss) before taxation		(13,683,037)	615,999	(22,432,850)	1,206,753
Taxation	6	-	-	-	-
Profit (loss) before minority interests		(13,683,037)	615,999	(22,432,850)	1,206,753
Minority interests		147,912	-	147,912	-
Net profit (loss) attributable to shareholders		(13,535,125)	615,999	(22,284,938)	1,206,753
Profit (loss) per share	7				
Basic		(1.90 cents)	0.09 cents	(3.21 cents)	0.18 cents
Diluted		N/A	N/A	N/A	N/A

## CONSOLIDATED BALANCE SHEET

At 31st January, 2003

	Notes	31st January, 2003 (unaudited) HK\$	31st July, 2002 (audited) HK\$
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	117,020,616	4,712,343
Intangible assets	9	87,852,070	55,900,000
Website development costs	10	309,262	377,987
Investment	11	-	-
Investments in securities, secured for credit facilities	12	38,668,000	45,524,000
		<u>243,849,948</u>	<u>106,514,330</u>
<b>CURRENT ASSETS</b>			
Inventories		11,973,429	5,798,422
Debtors, deposits and prepayments	13	27,337,572	76,935,116
Investments in securities	12	23,976,095	51,464,972
Amounts due from the China Rich Group	14	909,626	688,183
Bank deposits, secured for credit facilities		38,277,239	201,189,062
Deposits with other financial institutions		140,496	21,073,726
Bank balances and cash		9,672,171	10,517,312
		<u>112,286,628</u>	<u>367,666,793</u>
<b>CURRENT LIABILITIES</b>			
Creditors and accrued charges	15	17,513,630	11,820,938
Bills payable		-	2,179,000
Bank loans - due within one year, secured	16	7,547,170	69,300,620
Bank overdrafts, secured	16	36,444,021	149,627,817
		<u>61,504,821</u>	<u>232,928,375</u>
<b>NET CURRENT ASSETS</b>		<u>50,781,807</u>	<u>134,738,418</u>

	<i>Notes</i>	<b>31st January, 2003 (unaudited) HK\$</b>	<b>31st July, 2002 (audited) HK\$</b>
<b>NON-CURRENT LIABILITIES</b>			
Other loan	17	<b>26,179,427</b>	-
<b>MINORITY INTERESTS</b>			
		<b>18,368,038</b>	-
		<b><u>250,084,290</u></b>	<b><u>241,252,748</u></b>
<b>CAPITAL AND RESERVES</b>			
Share capital	18	<b>8,136,960</b>	6,780,800
Reserves	19	<b>241,947,330</b>	234,471,948
		<b><u>250,084,290</u></b>	<b><u>241,252,748</u></b>

## **CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 31st January, 2003

		For the six months ended 31st January,	
		2003	2002
		(unaudited)	(unaudited)
	Notes	HK\$	HK\$
Total equity at beginning of the period		241,252,748	271,770,688
Increase of share capital and share premium	18, 19	37,972,480	-
Net gains and losses not recognised in the profit and loss account			
Decrease in investment revaluation reserve	19	(6,856,000)	-
Net profit (loss) for the period		<u>(22,284,938)</u>	<u>1,206,753</u>
Total equity at end of the period		<u><u>250,084,290</u></u>	<u><u>272,977,441</u></u>

## **CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

For the six months ended 31st January, 2003

		For the six months ended 31st January,	
		2003	2002
		(unaudited)	(unaudited)
		HK\$	HK\$
Net cash inflow/(outflow) from operating activities		33,989,086	(20,309,781)
Net cash outflow from investing activities		(35,102,833)	(42,566,286)
Net cash outflow from financing		<u>(1,092,031)</u>	<u>(6,519,675)</u>
Decrease in cash and cash equivalents		(2,205,778)	(69,395,742)
Cash and cash equivalents at 1st August		<u>13,851,663</u>	<u>187,762,311</u>
Cash and cash equivalents at 31st January		<u><u>11,645,885</u></u>	<u><u>118,366,569</u></u>

## **NOTE TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

### **1. General**

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 research and development, manufacturing, marketing and distribution of traditional Chinese medicines, western medicines and healthcare products. The Group are also engaged in the provision of on-line content and the provision of portal development and information technology advisory and consultation services.

### **2. Basis of preparation**

The condensed unaudited consolidated financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The interim consolidated financial statements for the period from 1st August, 2002 to 31st January, 2003 are unaudited and have been reviewed by the Audit Committee of the Company.

### **3. Principal accounting policies**

The accounting policies adopted are consistent with those set out in the Group's annual financial statements for the year ended 31st July, 2002.

In current period, the Group has adopted the following SSAPs which are effective for accounting periods commencing on or after 1st January, 2002. Comparative amounts and disclosures have been restated in order to achieve a consistent presentation and has no effect on the results for the current or prior periods.

SSAPI (revised)	Presentation of financial statements
SSAPI 1 (revised)	Foreign currency translation
SSAPI 15 (revised)	Cash flow statements
SSAP34	Employee benefits

#### 4. Turnover and segment information

The Group's turnover and contribution to profit (loss) from operations for the period from 1st August, 2002 to 31st January, 2003, analysed by principal activity and geographical market were as follows:

##### Business segments 2003

	Advertising HK\$	Advisory services HK\$	Sale of pharmaceutical and herbal products HK\$	Consolidated HK\$
SEGMENT REVENUE				
Turnover	<u>-</u>	<u>756,482</u>	<u>5,385,678</u>	<u>6,142,160</u>
SEGMENT RESULTS	<u>-</u>	<u>(547,977)</u>	<u>(10,102,228)</u>	<u>(10,650,205)</u>
Unallocated corporate revenue				3,034,814
Unallocated corporate expenses				<u>(13,725,428)</u>
Loss from operations				(21,340,819)
Finance costs				<u>(1,092,031)</u>
Loss before taxation				<u>(22,432,850)</u>
Taxation				<u>-</u>
Loss before minority interests				<u>(22,432,850)</u>
Minority interests				<u>147,912</u>
Net loss for the period				<u>(22,284,938)</u>

2002

	Advertising HK\$	Advisory services HK\$	Sale of pharmaceutical and herbal products HK\$	Consolidated HK\$
SEGMENT REVENUE				
Turnover	<u>2,310,333</u>	<u>6,627,273</u>	<u>5,835,902</u>	<u>14,773,508</u>
SEGMENT RESULTS	<u>375,253</u>	<u>4,578,505</u>	<u>2,552,564</u>	7,506,322
Unallocated corporate revenue				10,095,808
Unallocated corporate expenses				<u>(9,875,702)</u>
Profit from operations				7,726,428
Finance costs				<u>(6,519,675)</u>
Profit before taxation				1,206,753
Taxation				-
Profit before minority interests				1,206,753
Minority interests				-
Net profit for the period				<u>1,206,753</u>

## Geographical segments

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods or services:

	Revenue		Profit	
	For the six months ended 31st January,		For the six months ended 31st January,	
	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$
By geographical market:				
Hong Kong	4,810,007	10,283,352	(7,554,590)	7,000,015
The PRC (other than Hong Kong)	832,953	-	(739,561)	-
The USA	499,200	4,490,156	99,840	4,490,155
	<u>6,142,160</u>	<u>14,773,508</u>	<u>(8,194,311)</u>	<u>11,490,170</u>
Unallocated corporate expenses			<u>(13,146,508)</u>	<u>(3,763,742)</u>
Profit (loss) from operations			<u>(21,340,819)</u>	<u>7,726,428</u>

Sales of goods and related cost of sales for the six months ended 31st January, 2002 have been reclassified to other operating income as commission income in conformity to the current period's presentation.



## 5. Profit (loss) from operations

	For the three months ended 31st January,		For the six months ended 31st January,	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Profit (loss) from operations has been arrived at after charging and crediting:				
Amortisation of website development costs (included in administrative and other operating expenses)	34,363	-	68,725	-
Depreciation on:				
Owned assets	1,248,911	726,944	1,903,116	1,438,213
Staff costs including directors' remuneration:				
Salaries and allowances	2,814,046	2,087,297	4,656,278	4,465,785
Retirement benefits scheme contributions	29,566	80,740	60,122	168,863
	<u>2,843,612</u>	<u>2,168,037</u>	<u>4,716,400</u>	<u>4,634,648</u>
Advertising and promotion expenses	6,539,277	287,157	9,816,166	478,595
Amortisation of intangible assets (included in administrative and other operating expenses)	891,528	-	1,610,278	-
Commission income	-	-	-	(550,411)
Dividend income	(226,053)	-	(947,144)	(10,200)
Interest income	(764,616)	(3,423,832)	(2,093,638)	(8,246,354)
Sundry income	-	(1,220,121)	-	(1,288,843)

## 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 Quarterly Period and Interim Period (1st November, 2001 to 31st January, 2002 and 1st August, 2001 to 31st January, 2002: nil)

Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

Details of unprovided deferred taxation during the Interim Period are set out in note 21.

## 7. Profit (loss) per share

The calculation of the basic profit (loss) per share is based on the net loss for the Quarterly Period and Interim Period of HK\$13,535,125 and HK\$22,284,938, respectively (1st November, 2001 to 31st January, 2002 and 1st August, 2001 to 31st January, 2002: profit of HK\$615,999 and profit of HK\$1,206,753, respectively) and on the weighted average of 711,984,000 shares and 695,124,634 shares in issue during the Quarterly Period and Interim Period, respectively (1st November, 2001 to 31st January, 2002 and 1st August, 2001 to 31st January, 2002: 678,080,000 shares). No diluted profit (loss) per share has been presented because the effect of exercising an option to subscribe for additional share of the Company is anti-dilutive.

## 8. Property, plant and equipment

	Land and buildings	Leasehold improvement	Plant and machinery	Plant and machinery under installation	Construction in progress	Furniture, fixtures and office equipment	Motor vehicle	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
COST								
At 1st August, 2002	-	2,521,250	-	4,794,175	-	7,462,397	-	14,777,822
Addition	-	-	1,843,260	-	-	224,000	-	2,067,260
Acquisition of a subsidiary	116,175,987	-	17,573,978	-	1,498,080	2,258,954	1,950,485	139,457,484
At 31st January, 2003	116,175,987	2,521,250	19,417,238	4,794,175	1,498,080	9,945,351	1,950,485	156,302,566
DEPRECIATION AND IMPAIRMENT LOSS								
At 1st August, 2002	-	1,807,583	-	4,794,175	-	3,463,721	-	10,065,479
Provided for the period	418,999	428,200	307,698	-	-	745,869	2,350	1,903,116
Acquisition of a subsidiary	16,508,633	-	7,343,550	-	-	1,718,688	1,742,484	27,313,355
At 31st January, 2003	16,927,632	2,235,783	7,651,248	4,794,175	-	5,928,278	1,744,834	39,281,950
NET BOOK VALUES								
At 31st January, 2003	99,248,355	285,467	11,765,990	-	1,498,080	4,017,073	205,651	117,020,616
At 31st July, 2002	-	713,667	-	-	-	3,894,877	103,799	4,712,343

## 9. Intangible assets

	Goodwill	Intellectual properties	Product development costs	Technology knowhow	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
<b>COST</b>					
At 1st August, 2002	-	57,500,000	-	1,494,884	58,994,884
Additions	17,936,198	5,674,636	5,897,800	-	29,508,634
Acquisition of a subsidiary	-	7,003,265	-	-	7,003,265
<b>At 31st January, 2003</b>	<b>17,936,198</b>	<b>70,177,901</b>	<b>5,897,800</b>	<b>1,494,884</b>	<b>95,506,783</b>
<b>AMORTISATION AND IMPAIRMENT LOSS</b>					
At 1st August, 2002	-	1,600,000	-	1,494,884	3,094,884
Provided for the year	74,734	1,535,544	-	-	1,610,278
Acquisition of a subsidiary	-	2,949,551	-	-	2,949,551
<b>At 31st January, 2003</b>	<b>74,734</b>	<b>6,085,095</b>	<b>-</b>	<b>1,494,884</b>	<b>7,654,713</b>
<b>CARRYING AMOUNT</b>					
<b>At 31st January, 2003</b>	<b>17,861,464</b>	<b>64,092,806</b>	<b>5,897,800</b>	<b>-</b>	<b>87,852,070</b>
At 31st July, 2002	-	55,900,000	-	-	55,900,000

Goodwill arose from the acquisition of a subsidiary during the Interim Period.

The intellectual properties represent the traditional Chinese medicine formulae and certain protocols for herbal medicine. The amount is stated at cost and is amortised over 20 years.

The technology knowhow represents the concept and insecticidal mechanism of bioinsecticide.

Product development costs represent costs incurred in testing and improving the traditional Chinese medicine and healthcare products.

## 10. Website development costs

	HK\$
<b>COST</b>	
At 1st August, 2002	26,946,020
Additions	-
<b>At 31st January, 2003</b>	<b>26,946,020</b>
<b>AMORTISATION AND IMPAIRMENT LOSS</b>	
At 1st August, 2002	26,568,033
Provided for the year	68,725
<b>At 31st January, 2003</b>	<b>26,636,758</b>
<b>NET BOOK VALUES</b>	
<b>At 31st January, 2003</b>	<b>309,262</b>
At 31st July, 2002	377,987

## 11. Investment

The investment represents the Group's 18.75% investment in 北京科谷 苑工貿有限公司.

## 12. Investments in securities

	31st January, 2003 (unaudited) HK\$	31st July, 2002 (audited) HK\$
Securities, at market value		
Listed equity securities in Hong Kong	62,644,095	74,342,452
Quoted fund investment outside Hong Kong	-	22,646,520
	<u>62,644,095</u>	<u>96,988,972</u>
Carrying amount analysed for reporting purposes as:		
Current	23,976,095	51,464,972
Non-current	38,668,000	45,524,000
	<u>62,644,095</u>	<u>96,988,972</u>

## 13. Debtors, deposits and prepayments

The Group allows an average credit period of 60 to 90 days to its trade customers. The following is an aged analysis of trade debtors at the balance sheet date:

	31st January, 2003 (unaudited) HK\$	31st July, 2002 (audited) HK\$
0 - 60 days	1,816,879	42,400
61 - 90 days	963,037	3,708
Over 90 days	<u>1,021,568</u>	303,600
Trade debtors	3,801,484	349,708
Other receivables	960,310	1,896,935
Deposits for investment projects	-	43,110,000
Utility and other deposits	800,593	6,083,353
Prepayments	<u>21,775,185</u>	25,495,120
	<u>27,337,572</u>	<u>76,935,116</u>

**14. Amounts due from China Rich Holdings Limited and its subsidiaries (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 and certain of its subsidiaries.

**15. Creditors and accrued charges**

Included in the balance are trade creditors of HK\$8,704,000 (31st July, 2002: HK\$428,000), which are aged less than 90 days.

**16. Bank loans and overdrafts**

The bank loans and overdrafts are secured by bank deposits, securities and certain of the land of the Group.

**17. Other loan**

The balance is unsecured, interest free and repayable beyond five years.

**18. Share capital**

	<b>31st January, 2003 (unaudited) HK\$</b>	<b>31st July, 2002 (audited) HK\$</b>
Authorised:		
Number of shares	<b>2,000,000,000</b>	2,000,000,000
Shares of HK\$0.01 each	<b><u>20,000,000</u></b>	<u>20,000,000</u>
Issued and fully paid:		
Number of shares	<b>813,696,000</b>	678,080,000
Shares of HK\$0.01 each	<b><u>8,136,960</u></b>	<u>6,780,800</u>

On 8th January, 2003, 135,616,000 ordinary shares of HK\$0.01 each were issued as partial consideration at fair value of HK\$0.28 each in the acquisition of a 100% interest in a subsidiary whose principal assets comprised investment in a 80% equity interest in an equity joint venture registered in the PRC which is engaged in the manufacturing and distribution of western medicines and healthcare products.

## 19. Reserves

	Share premium <i>HK\$</i>	Investment revaluation reserve <i>HK\$</i>	Accumulated (losses) profit <i>HK\$</i>	Total <i>HK\$</i>
At 31st July, 2002 (audited)	361,065,289	(25,752,000)	(100,841,341)	234,471,948
Issue of shares	36,616,320	-	-	36,616,320
Net loss for the year	-	-	(22,284,938)	(22,284,938)
Unrealised holding loss	-	(6,856,000)	-	(6,856,000)
	<u>397,681,609</u>	<u>(32,608,000)</u>	<u>(123,126,279)</u>	<u>241,947,330</u>
At 31st January, 2003 (unaudited)				

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 the 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.

## 20. 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:

	31st January, 2003 (unaudited) <i>HK\$</i>	31st January, 2002 (unaudited) <i>HK\$</i>
Operating leases which expire: - within one year	<u>1,340,000</u>	<u>890,000</u>

Operating leases payments in respect of land and buildings represent rentals payable by the Group for its office premises. Leases are negotiated for an average term of two years.

## 21. Deferred taxation

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

	<b>31st January, 2003 (unaudited) HK\$</b>	<b>31st July, 2002 (audited) HK\$</b>
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	(104,000)	(184,000)
Estimated tax losses	<u>22,964,000</u>	<u>20,864,000</u>
	<u><b>22,860,000</b></u>	<u><b>20,680,000</b></u>

A deferred tax asset has not been recognised in the interim 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.

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

	<b>For the six months ended, 31st January, 2003 (unaudited) HK\$</b>	<b>2002 (unaudited) HK\$</b>
Tax effect of timing differences because of:		
Difference between tax allowances and depreciation	80,000	-
Estimated tax losses (utilised) arising	<u>2,100,000</u>	<u>-</u>
	<u><b>2,180,000</b></u>	<u><b>-</b></u>

## 22. Related party transactions

Other than the amounts due from the China Rich Group as disclosed in note 14, during the year, the Group entered into the following transactions with the China Rich Group:

- (i) The Group paid rental of HK\$1,073,000 (1st August, 2001 to 31st January, 2002: HK\$630,000) to the China Rich Group. The charge is based on the areas occupied by the Group pursuant to the agreements entered into between the parties. The unit rate per square feet was determined by the directors based on estimated market rates.

- (ii) The Group paid an administrative service fee of HK\$360,000 (1st August, 2001 to 31st January, 2002: HK\$240,000) to the China Rich Group. The fee is charged at a fixed monthly fee pursuant to the agreements entered into between the parties. The fee was determined by directors base on estimated time spent by the staff of China Rich Group on the affairs of the Group.
- (iii) The Group paid website development costs of HK\$720,000 (1st August, 2001 to 31st January, 2002: HK\$240,000) 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.
- (iv) The Group received information technology advisory income of HK\$145,000 (1st August, 2001 to 31st January, 2002: HK\$308,885) from the China Rich Group. The fee was determined at prices agreed between the parties and was similar to terms offered to other clients.

### **23. Comparative amounts**

Certain comparative amounts have been reclassified to conform with current period's presentation.

### ***MOVEMENT OF RESERVES***

There have been no movements in the reserves of the Group during the period from 1st August, 2002 to 31st January, 2003, except for the revaluation deficit on investments in securities during the Interim Period of HK\$6,856,000 (1st August, 2001 to 31st January, 2002: nil) and the increase of share premium of HK\$36,616,320 (1st August, 2001 to 31st January, 2002: nil).

### ***INTERIM DIVIDEND***

The directors do not recommend the payment of interim dividend for the period from 1st August, 2002 to 31st January, 2003 (1st August, 2001 to 31st January, 2002: nil).



**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND OPTIONS**

**(i) Shares**

As at 31st January, 2003, 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***

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

***Shares in China Rich Holdings Limited***

<b>Name of director</b>	<b>Number of shares Personal and total interests</b>
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 1st August, 2002	Granted	Cancelled	Outstanding as at 31st January, 2003
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 Siu 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	1,000,000	-	-	1,000,000
			<u>89,308,000</u>	<u>-</u>	<u>(2,000,000)</u>	<u>87,308,000</u>

***Options in China Rich Holdings Limited***

Name of director	Date of grant	Exercise price HK\$	Number of share options outstanding as at	
			1st August, 2002	and 31st January, 2003
Ms. Cheng Kit Yin, Kelly	5th March, 1997	0.43		5,000,000
	26th January, 2000	0.30		4,000,000
	22nd March, 2000	0.33		10,000,000
Mr. Kam Shing	26th January, 2000	0.30		3,000,000

***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 January, 2003, 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 January, 2003, 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 January, 2003.

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.

During the Interim Period, no options were granted or exercised. 9,000,000 options were cancelled during the Interim Period.

Details of the outstanding share options are as follows:

Number of share options	Date of grant	Exercise price per share HK\$	Exercise period
26,300,000 (note 1)	19th December, 2000	0.218	From date of grant or first anniversary date of employment to 20th February, 2010
14,600,000 (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 January, 2003, 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
China Global Gains Investment Limited	135,616,000

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, 2003.

### ***COMPETING INTERESTS***

For the period from 1st August, 2002 to 31st January, 2003, 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. 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 Company has complied with Rule 5.23 of the GEM Listing Rules throughout the period from 1st August, 2002 to 31st January, 2003 except there has been one independent non-executive director since 31st December, 2002. The Company has obtained a waiver to Rule 5.23 and has to re-comply with Rule 5.23 of the GEM Listing Rules on or before 31st March, 2003. 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 January, 2003 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 January, 2003.