

Annual

年

Report

報

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.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, 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 report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

香港聯合交易所有限公司(「聯交所」)創業板(「創業板」)之特色

創業板乃為帶有高投資風險之公司提供一個上市之市場。尤其在創業板上市之公司毋須有過往溢利記錄，亦毋須預測未來溢利。此外，在創業板上市之公司可因其新興性質及該等公司經營業務之行業或國家而帶有風險。有意投資之人士應了解投資於該等公司之潛在風險，並應經過審慎周詳之考慮後方作出投資決定。創業板之較高風險及其他特色表示創業板較適合專業及其他資深投資者。

由於創業板上市之公司屬新興性質，在創業板買賣之證券可能會較在聯交所主板買賣之證券承受較大之市場波動風險，同時無法保證在創業板買賣之證券會有高流通量之市場。創業板發佈資料之主要方法為在聯交所為創業板而設之互聯網網頁上刊登。上市公司毋須在憲報指定報章刊登付款公佈披露資料。因此，有意投資之人士應注意，彼等須閱覽創業板網頁，方可取得創業板上市發行人之最新資料。

香港聯合交易所有限公司對本報告之內容概不負責，對其準確性或完整性亦不發表任何聲明，並明確表示概不就因本報告全部或任何部份內容而產生或因倚賴該等內容而引致之任何損失承擔任何責任。

本報告包括之資料乃遵照聯交所《創業板證券上市規則》(「創業板上市規則」)之規定而提供有關大中華科技(集團)有限公司之資料。大中華科技(集團)有限公司各董事願就本報告共同及個別承擔全部責任，並在作出一切合理查詢後確認，就彼等所知及所信：(1) 本報告所載之資料在各重大方面均屬準確完整，且無誤導成份；(2) 本報告並無遺漏其他事實致使本報告所載任何內容產生誤導；及(3) 本報告所表達之一切意見乃經審慎周詳考慮後始行發表，並以公平合理之基準及假設為依據。

Contents **2003**

Corporate Profile	2
Chairman's Statement	3
Directors, Senior Management and Staff	10
Directors' Report	13
Auditors' Report	21
Consolidated Profit and Loss Account	26
Consolidated Balance Sheet	27
Consolidated Statement of Changes in Equity	28
Consolidated Cash Flow Statement	29
Balance Sheet	31
Notes to the Financial Statements	32
Financial Summary	71

Corporate Profile

DIRECTORS

Executive Director

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

Non-executive Directors

Mr. Kam Shing
Dr. Ngai Sai Ming, Ice

Independent Non-executive Directors

Dr. Lau Lap Ping
Mr. Man Kong Yui

AUTHORIZED REPRESENTATIVES

Ms. Cheng Kit Yin, Kelly
Ms. Kuo Kwan, Belinda

AUDIT COMMITTEE MEMBERS

Dr. Lau Lap Ping
Mr. Man Kong Yui

COMPLIANCE OFFICER

Ms. Cheng Kit Yin, Kelly

COMPANY SECRETARY

Ms. Kuo Kwan, Belinda

QUALIFIED ACCOUNTANT

Ms. Kuo Kwan, Belinda

AUDITORS

Horwath Hong Kong CPA Limited
Certified Public Accountants
2001 Central Plaza, 18 Harbour Road
Wanchai, Hong Kong

BANKERS

Bank of China (Hong Kong) Limited
Standard Chartered Bank
DBS Bank
Citibank, N.A.

LEGAL ADVISERS

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

On Cayman Islands Law

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

On PRC Law

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

Suite 3408
Two Exchange Square
Central
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Cayman Islands

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

Hong Kong

28th Floor, BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Chairman's Statement

On behalf of the Board of Directors (the "Board"), we hereby present the Annual Report of GreaterChina Technology Group Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 July 2003.

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 through the establishment of the Chinese Medicinal Fungal ("CMF") - Proteomics Laboratory, a collaboration with the Department of Biology, Chinese University of Hong Kong. This study of Proteomics 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.

In view of the outbreak of the mysterious illness Severe Acute Respiratory Syndrome (SARS) in the early months of 2003, our Group, through our CMF - Proteomics Laboratory had participated in the analysis of the protein structure of SARS and conducted a series of studies on fungal proteins. Our goal was to develop a biologically active synthetic peptide based vaccine. In August 2003, our study "Development of a synthetic vaccine from SARS coronavirus and method of use" was granted a provisional patent license by the United States Patent and Trademark Office.

During the year ended 31 July 2003, the Group has further diversified its business by acquiring an 80% interest in a pharmaceutical manufacturing plant in the People's Republic of China (the "PRC"). In this regard, the Directors consider that the



Chairman's Statement

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

Segment Information

For the year ended 31 July 2003, the Group recorded a total revenue of HK\$19.2 million, of which HK\$7.4 million was contributed from the Group's core business of sales of nutraceutical Chinese herbal products and related services, HK\$1.2 million from advisory and consultation services and HK\$10.5 million from interest income and other sundries. For the comparative figures in the previous financial year, the Group earned a total revenue of HK\$44 million, of which HK\$2.6 million was contributed by the Group's advertising activities, HK\$11.5 million was generated from the sale of nutraceutical Chinese herbal products, HK\$9.9 million arose from portal development and information technology advisory and consultation concerning the setting up of production lines conforming with Good Manufacturing Practice ("GMP") standard in the PRC and HK\$20 million arose from interest income and other sundries.

Decrease in the overall revenue was due to the completion of various consultation services and additional expenses were incurred which mainly comprised of advertising and brand-building expenses of HK\$15 million, amortisation costs on intangible assets of HK\$3.9 million, research and development costs of HK\$6.5 million and write off of prepayments of HK\$12.5 million and the share of loss in the PRC pharmaceutical plants of HK\$5.1 million. Furthermore, the Group has taken a prudent approach in respect of its traditional Chinese medicine formulae and protocols for herbal medicine, and hence as at 31 July 2003, a full impairment provision of HK\$58.5 million was made. As a result, there was a net loss of HK\$129.2 million for the year ended 31 July 2003 as compared to a net loss of HK\$4.8 million in the previous year.

Chairman's Statement

Since the acquisition of the 80% interest in the pharmaceutical plant in the PRC and up to the date of this report, the pharmaceutical plant is in the process of changing its articles of association in order for the Group to obtain the formal board control in terms of the board representation. The pharmaceutical plant was accounted for as a subsidiary of the Group in the interim report for the six months ended 31 January 2003 and quarterly report for the 9 months ended 30 April 2003. However, the approval of the change of the articles of association has not yet been obtained, therefore, the pharmaceutical plant in the PRC is accounted for as a jointly controlled entity in this financial statements until formal approval from the relevant government in the PRC is obtained.

Other Financial Information

Except for the investment in funds, listed equity securities and marketable bonds which the management considered will enhance the overall financial return of the Group, and the acquisition of an 80% interest in the pharmaceutical plant in the PRC, there was no significant investment held by the Group nor material acquisitions and disposals of subsidiaries and affiliated companies during the year.

The current ratio of the Group was 1.2 as at the year end compared to 1.58 as at 31 July 2002. The gearing ratio, defined as the ratio of total borrowings to total assets, was 29.5% as compared to 46.2% as at 31 July 2002. The decrease is mainly due to the repayment of bank borrowings by the internal fund of the Group. The Group's borrowings mainly comprise short term loan and overdrafts which amounted to approximately HK\$63.2 million (2002: HK\$218.9 million) as at the year end and are wholly secured by bank deposits and investments in securities. The Group therefore has effectively no outstanding debts or exposure to its bankers given that the Group's cash deposits and investments in securities held at its banks 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 year, the Directors consider 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.



Chairman's Statement

As at the year end, the Group has operating lease commitments for various offices of the Group amounting to approximately HK\$965,000. Moreover, the Group had commitments amounting to HK\$5,344,960 in respect of contributions to research and development projects. Other than the aforementioned, there were no other significant capital commitments and contingent liabilities of the Group as at the year end.

The Group employed 12 full time employees as at 31 July 2003 (2002: 20). Remuneration of the staff comprised of monthly salary, provident fund contributions, medical claims, education allowances and discretionary options issued based on their contribution to the Group. Staff costs including directors' remuneration for the financial year under review amounted to HK\$8,971,285 (2002: HK\$8,498,080).

Overall, the net asset value of the Group was approximately HK\$140.9 million equivalent to approximately HK\$0.19 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 medicine and healthcare products. During the year ended 31 July 2003, 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 year ended 31 July 2003, the Company has achieved the following objectives:

RESEARCH & PRODUCT DEVELOPMENT:

Successful setting up of a research and development laboratory – Chinese Medicinal Fungal (CMF) Proteomics Laboratory;

Collaboration with the Department of Biology, the Molecular SARS Study Group, the Chinese University of Hong Kong in the study and analogy of fungal proteins and the protein structure of SARS;

Collaboration with the Chinese University of Hong Kong, Prince of Wales Hospital in the Study of Immunomodulatory and Anti-Tumor Activities of HERBSnSENSES™ Cordyceps;

Chairman's Statement

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;

Completed product development of the LINGZHI and POLYSACCHARIDES SERIES;

Contributed a Multi-Fluorescence FACSCalibur Flow Cytometer to the Chinese University of Hong Kong for clinical service and research related to SARS;

Acquired the state-of-the-art medical equipment "Solid Phase Peptide Synthesiser" to perform biophysical assays on characteristics of the structural and functional relationship among the SARS viral peptides and antibodies; and

Obtained a Provisional Patent License from the United States Patent and Trademark Office on the "Development of a synthetic vaccine from SARS coronavirus and methods of use".

OPERATION OF A PHARMACEUTICAL MANUFACTURING PLANT:

Expanded its business into the operation of a pharmaceutical manufacturing plant and distribution of western generic medicine in the PRC; and

Conducted feasibility studies on setting up the injection medicine manufacturing plant with Good Manufacturing Practice (GMP) quality for potential distribution of injection medicine in the PRC.

DISTRIBUTION OF HERBAL PRODUCT:

Successful brand-building of HERBSnSENSES™;

Official launching of the Group's first flagship herbal product HERBSnSENSES™ Cordyceps in both Hong Kong and the US markets;

Marketing and distribution of HERBSnSENSES™ Cordyceps via our websites www.herbsnsenses.com, www.senseshop.com and other healthcare distribution channels;

Obtaining licenses and health regulatory approval in the PRC; and

Exhibitions in Hong Kong, Germany and Japan.



C

Chairman's Statement

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:

Research and development in the search of value added therapeutic products to advance and enhance the Group's Cordyceps, Lingzhi and Polysaccharides product range;

Research and development on other TCM product lines, including nutraceutical, herbal and pharmaceutical product lines, either in cooperation with external research institutions or in-house;

With the Proteomics research, we have targeted to identify 20,000 groups of proteins to set up a "Human Disease Proteoms" database;

Discovery of protein-based marker and drug for diagnostic and therapeutic treatment;

Commencement of human clinical trial on Immunomodulatory and Anti-Tumor Activities of HERBSnSENSES™ Cordyceps conducted at Prince of Wales Hospital;

Develop a biologically active synthetic peptide based vaccine to cure infection or disease caused by SARS Coronavirus; and

Collaboration with local and foreign institutions and universities in the field of research and clinical trials.

OPERATION OF A PHARMACEUTICAL MANUFACTURING PLANT:

Feasibility studies in relation to the setting up of an international Good Manufacturing Practice (GMP) facility in the PRC;

Reinforce the brand-awareness of its existing pharmaceutical products and expand its distribution network in the PRC market;

Obtain licenses and health regulatory approval on some of its western medicinal formulae in the PRC;

Chairman's Statement

Setting up a manufacturing plant for HERBSnSENSES™ Cordyceps and other product series for the distribution in the PRC;

Setting up injection production lines in the PRC to broaden the product diversity;

Establishing strategic partnership to increase the income source; and

Enhance its existing research and development center to upgrade into a more innovative, state-of-the-art laboratory.

DISTRIBUTION OF HERBAL PRODUCT:

Official launching of HERBSnSENSES™ Cordyceps, HERBSnSENSES™ Lingzhi, HERBSnSENSES™ Polysaccharides in Hong Kong, the PRC, the USA and Europe;

Obtaining licenses and health regulatory approval in the PRC, Malaysia, Singapore, Thailand, Indonesia, Philippines, Japan and Korea;

Commencement of regular seminars on health issues in Hong Kong and the PRC; and

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.

Cheng Kit Yin, Kelly
Chairman and Chief Executive Officer

Hong Kong, 6 October 2004



Directors, Senior Management and Staff

DIRECTORS

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

Executive Directors

Ms. Cheng Kit Yin, Kelly, aged 52, is the founding Chairman and Chief Executive Officer of the Company where she developed www.greaterchinaherbs.com and www.ladiesasia.com. In 2001, she founded the Group's first flagship herbal product HERBSnSENSESTM™ Cordyceps and was the Group's driving force behind the Group's expansion into off-line business related to the promotion of traditional Chinese medicine with the assistance of advanced biotechnology. Ms. Cheng is actively involved in the strategic planning, financial management and the daily operations of the Group. She graduated from York University, Toronto, Canada with a Bachelor Degree in mathematics and obtained a Master Degree in computer science from the University of Toronto, Canada. She has over 25 years' experience in banking, auditing and finance. Ms. Cheng is the Deputy Chairman and Chief Financial Officer of China Rich Holdings Limited ("China Rich"). She is also a Member of the Council, the Chinese University of Hong Kong and also a Member of the Board of Trustees, Shaw College, the Chinese University of Hong Kong ("CUHK").

Non-executive Directors

Mr. Kam Shing, aged 73, graduated from Beijing University, the PRC. Mr. Kam has over 40 years' experience in business administration while working for the Guangxi Provincial Government in the PRC. Since 1981, Mr. Kam has been working in Hong Kong as a director of three private companies owned by the Guangxi Provincial Government of the PRC. He joined the Group in January 2000. Mr. Kam is currently an executive director of China Rich.

Dr. Ngai Sai Ming, Ice, aged 39, is an Assistant Professor of the Department of Biology of the CUHK. He joined the Group in September 2001 and has participated in the Group's overall product development and application. Recently, he had set up the Chinese Medicinal Fungal Proteomic Laboratory for the Group. Dr. Ngai was a Bioinformatics Specialist in the Hong Kong Bioinformatics Centre in CUHK from 1996 to mid 2001 and participated in launching the Hong Kong Bioinformatics Centre and in implementing the in-house data-searching algorithm for the human genome Project in CUHK. He was also responsible for the compilation and maintenance of the Traditional Chinese Medicine (TCM) databases in the Institute of Chinese Medicine (ICM) in CUHK. Besides, Dr. Ngai also took part in designing

Directors, Senior Management and Staff

and conducting Bioinformatics and TCM related researches. Dr. Ngai has an honor Bachelor of Science degree in Biochemistry from the University of Waterloo and a PhD in protein and peptide Biochemistry from the University of Alberta, Canada.

Independent Non-executive Directors

Dr. Lau Lap Ping, aged 52, graduated from Zhongshan Medical University of Medicine. She held the position of Attending Physician in Internal Medicine and Pediatrics of Dong San Regional People's Hospital from 1973 to 1994. After that, she worked in a herbal medicinal trading company as a Deputy General Manager and joined the Group in January 2000.

Mr. Man Kong Yui, aged 44, has been involved in the financial and securities industries for over 25 years and has extensive experience in bullion, futures and foreign exchange business. He is a director of Hantec Investment Holdings Limited, a listed company in Hong Kong, and has held various senior positions with prominent banks and international financial institutions. Mr. Man holds a Bachelor's Degree in Business Administration from the Chinese University of Hong Kong. He joined the Group in March 2004.

SENIOR MANAGEMENT

Research and Development

Dr. Zou Ling, aged 44, graduated from Zhongshan Medical University of Medicine. She works for Internal Diseases Department of Guangdong Provincial People's Hospital and specializes in internal secretion. Dr. Zou has a deep understanding in the treatment of diabetes and hyperthyroidism. She has written numerous articles for various magazines in the PRC. Dr. Zou joined the Group in May 1997 and is the chief physician and medical adviser on the product development of the Company.

Corporate Accounts and Secretarial

Ms. Kuo Kwan, Belinda, aged 34, is the Financial Controller and Company Secretary of the Group. Ms. Kuo joined the Group in January 2004 and is in charge of the accounts and corporate secretarial department. Ms. Kuo holds a Bachelor's Degree in Commerce from the University of Melbourne and has over 9 years accounting and auditing experience. Prior to joining the Group, she worked for a listed company in Hong Kong and an international accounting firm. She is a member of the Australia Society of CPAs, and an associate member of the Hong Kong Institute of Certified Public Accountants.



Directors, Senior Management and Staff

ADVISORY BOARD

Medical and Clinical Advisers

Dr. Lin Shu Guang, aged 53, is the Governor of Guangdong Provincial People's Hospital and the Dean of Guangdong Provincial Cardiovascular Research Institute and specializes in cardiovascular pharmacological research. He has been practising extensively in cardiology for more than 20 years, and is a fellow of the American College of Cardiology. He was awarded as the Outstanding Returned Scientist by the National Expert, and the National Prizes for Advancement in Science and Technology. He has published more than twenty papers and two books on cardiology.

Dr. Liao Xin Bo, aged 47, graduated from the Guangzhou Medical College of Medicine and continued his study at the University of George Washington, USA. He acted as the Vice Governor for the Guangdong People's Provincial Hospital and also in charge of the entire Hospital's administration.

Dr. Zeng Guo Hong, aged 50, graduated from Zhongshan Medical University. He specializes in pediatric cardiac catheterization and is a specialist in the PRC in radio frequency ablation and treatments for paroxysmal supraventricular tachycardia in children. He is the tutor for MM Candidates in Cardiovascular Pediatric, Deputy Dean of the Guangdong Province Blood Vessels Study Institute, Vice Governor of the Guangdong Provincial People's Hospital, and Deputy General Manager of the Guangdong Concord Medical Center. He has published various papers and journals relating to heart diseases and was awarded the Provincial Prizes for Advancement in Science and Technology.

Dr. Luo Song Ping, aged 46, is the chief professor at the Gynecological Teaching and Research Section of the First Clinical Medical College under the Guangdong University of Traditional Chinese Medicine. She was conferred the title of "Middle-aged or Young Expert with Prominent Contributions" by the Ministry of Personnel. She has also received awards from the State Education Commission and the Ministry of Health on several occasions.

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 July 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 July 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 70.

The directors do not recommend the payment of any dividend for the year ended 31 July 2003.

FIXED ASSETS

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 25 and 26 to the financial statements.

PRE-EMPTIVE RIGHTS

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



Directors' Report

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

At 31 July 2003, the Company's reserves available for distribution to shareholders comprising share premium account less accumulated losses and long term investment revaluation reserve, amounted to HK\$189,516,433.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 86% of the sales for the year and sales to the largest customer included therein amounted to approximately 43%. Purchases from the Group's five largest suppliers accounted for approximately 91% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 85%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

Directors' Report

DIRECTORS

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

Executive directors

Ms. Cheng Kit Yin, Kelly

Mr. Mak Shiu Chung, Godfrey *(resigned on 18 February 2003)*

Non-executive directors

Mr. Kam Shing

Dr. Ngai Sai Ming

Ms. Lau Sio Kuan, Vivian *(resigned on 15 November 2002)*

Independent non-executive directors

Dr. Lau Lap Ping

Mr. Man Kong Yui *(appointed on 31 March 2004)*

Mr. Ha Shu Tong *(appointed on 17 March 2003 and resigned on 5 October 2004)*

Mr. Heng Kwo Seng *(resigned on 31 December 2002)*

In accordance with the Company's articles of association, Mr. Kam Shing will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

The terms of office of each director are subject to retirement by rotation in accordance with the Company's articles of association.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 to 12 of the annual report.



Directors' Report

DIRECTORS' SERVICE CONTRACTS

Ms. Cheng Kit Yin, Kelly, being an executive director, has a service contract with the Company for an initial term of 36 months commencing on 18 February 2003 which is subject to termination by either party giving not less than three months' notice.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN CONTRACTS

Details of the Group's transactions with a director, Ms. Cheng Kit Yin, Kelly and with China Rich Holdings Limited and its subsidiaries, in which Ms. Cheng Kit Yin, Kelly is interested by virtue of her shareholding in China Rich and is the Deputy Chairman of China Rich, and Mr. Kam Shing and Dr. Lau Lap Ping are executive and independent non-executive directors of China Rich, respectively, are set out in notes 19 and 29 to the financial statements. Save as disclosed above, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Directors' Report

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 July 2003, the interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.40 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules"), were as follows:

Long positions in ordinary shares of the Company

Name of director	Number of shares held, capacity and nature of interest	Percentage of the Company's issued share capital
	Directly beneficially owned	
Ms. Cheng Kit Yin, Kelly	<u>44,046,020</u>	<u>5.4</u>

The interests of the directors in the share options of the Company are separately disclosed in note 26 to the financial statements.

In addition to the above, a director has a non-beneficial personal equity interest in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

Directors' Report

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 26 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 July 2003, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions

Name	Number of ordinary shares held	Percentage of the Company's issued share capital
China Rich Holdings Limited	258,451,559	32
China Global Gains Investment Limited	<u>135,616,000</u>	<u>17</u>

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions of the Group are set out in note 29 to the financial statements.

Directors' Report

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

In the opinion of the directors, the Company complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules, throughout the accounting period covered by the annual report.

AUDIT COMMITTEE

The Company's audit committee was formed on 17 March 2000 with written terms of reference in compliance with Rules 5.23 to 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. Following the resignation of Mr. Ha Shu Tong on 5 October 2004, the audit committee currently comprises the independent non-executive directors, Dr. Lau Lap Ping and Mr. Man Kong Yui.

During the year, the audit committee met 4 times for reviewing the Group's quarterly, half-year and annual financial results and other matters.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

For the year ended 31 July 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.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 32 to the financial statements.



Directors' Report

AUDITORS

During the year, Deloitte Touche Tohmatsu resigned as auditors of the Company. Ernst & Young were appointed by the directors to fill the casual vacancy so arising and resigned on 24 August 2004. Horwath Hong Kong CPA Limited were appointed as auditors of the Company to fill the casual vacancy. There have been no other changes of auditors in the past three years. A resolution for the reappointment of Horwath Hong Kong CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Cheng Kit Yin, Kelly
Chairman

Hong Kong
6 October 2004



Horwath Hong Kong CPA Limited

2001 Central Plaza
18 Harbour Road
Wanchai, Hong Kong
Telephone : (852) 2526 2191
Facsimile : (852) 2810 0502
www.horwath.com.hk

To the members

GreaterChina Technology Group Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 26 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:

1. *Scope limitations – impairment provision in respect of Intellectual Properties*

As set out in note 14, the Group has made a full impairment provision in respect of its traditional Chinese medicine formulae and protocols for herbal medicine (the "Intellectual Properties") which had a carrying value of HK\$58,302,048 at 31 July 2003. The Group has not performed or obtained a formal valuation of its Intellectual Properties and the information available is not sufficient to enable us to determine the recoverable amount of the Intellectual Properties and whether or not it is appropriate for the Group to fully provide for their carrying value.

2. *Scope limitation – recoverability of remaining prepayments for advertising campaigns*

Included in prepayments, deposits and other receivables in the consolidated balance sheet as at 31 July 2003 were unamortised prepayments in the total of HK\$4,599,000 previously paid to two agencies for banner and button advertisements on certain internet websites to be provided by these two agencies for a two-year period from 1 September 2002 to 31 August 2004. Subsequent to 31 July 2003, the Group entered into a new marketing agreement and new advertising agreement with the same two agencies, pursuant to which the original advertising agreements were terminated and the value of services not yet performed by the two agencies amounting to approximately HK\$4,780,000 as at 31 July 2003 were held on account and are to be deducted from the future fees payable for advertising services and marketing services to be provided by these agencies in connection with the marketing and promotion of the Group's trademarks and products in the People's Republic of China (the "PRC") as and when the approval of these trademarks and products are obtained. There is no information to indicate when the Group will be able to obtain approval of its trademarks and products from the authority in the PRC and on the agencies' capabilities to perform then, therefore, we are unable to assess the recoverability of the above prepayment balance.

3. *Scope limitation – deposit paid for the construction of a pharmaceutical plant in the PRC*

Included within prepayments, deposits and other receivables in the consolidated balance sheet as at 31 July 2003 was a deposit of HK\$15,630,000 recorded as paid by the Group to a contractor for the construction of a pharmaceutical production facility in the PRC. The deposit represented approximately 98% of the total contracted sum of RMB17,000,000, which was paid in advance of the specified progress payment terms in the contract. Although construction work on the production facilities has commenced, the completion of the work will depend on the granting of the relevant Good Manufacturing Practice (“GMP”) certificates by the PRC government. There is no information available to indicate the stage of completion of the work performed, if and when the GMP certificates will be granted or the fair value of the pharmaceutical production facilities as and when it is fully constructed. At this stage, there are no practicable audit procedures that we could adopt to ascertain the recoverable amount of the above deposit paid in advance.

4. *Scope limitation – consolidation of a subsidiary based on its unaudited management accounts for the year ended 31 July 2001*

The current year consolidated financial statements include the following amounts in respect of the subsidiary, Beijing Weston Biological-technology Co., Limited (“Beijing Weston”) which was disposed of by the Group subsequent to 31 July 2003:

- Bad debts written off of HK\$579,000; and
- Creditors and accrued charges of HK\$785,000.

The above amounts were based on the unaudited management accounts of Beijing Weston for the year ended 31 July 2001. Management explained that Beijing Weston was dormant with no material transactions and no financial statements have been prepared subsequent to that date. We are unable to quantify the effect on the consolidated balance sheet as at 31 July 2003 and the consolidated profit and loss account and cash flow statement for the year ended 31 July 2003 due to the lack of up to date audited financial information of Beijing Weston.

5. *Scope limitation – inventories*

- (a) In performing our procedures on the opening balance of the inventories, we noted that during the year ended 31 July 2002, expenditure totalling HK\$3,800,000 in the nature of consultancy fees incurred in manufacturing have been included as part of the cost of production of finished products. Inventory of finished products as at 31 July 2002 would have included a portion of the above cost. Due to the lack of adequate documentary evidence relating to such expenditure, we are unable to ascertain whether such expenditure should be included as part of the cost of finished products and therefore as cost of sales for the year ended 31 July 2003.
- (b) We were initially appointed auditors on 9 September 2004 which was subsequent to the end of the Company's financial year and accordingly we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the quantities and condition of inventories, appearing in the balance sheet at HK\$2,561,626. There were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the existence and condition of inventories as at 31 July 2003. Any adjustment to the figure may have a consequential significant effect on the net loss for the year and net assets at 31 July 2003.

6. *Scope limitation – balances due from subsidiaries*

Included in the balance sheet of the Company as at 31 July 2003 are amounts due from certain subsidiaries of approximately HK\$274,000,000 which were advanced by the Company up to 31 July 2003 for the purposes of financing the acquisitions of certain assets and the operation of the manufacture and sales of herbal products in connection with the Intellectual Properties referred to in paragraph 1 above. As a result of the scope limitations detailed in paragraphs 1 to 5 above, we were unable to obtain sufficient information to assess the recoverability of the amounts due from such subsidiaries and whether or not the provision of HK\$155,000,000 made by the Company as at 31 July 2003 is adequate.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraphs 1 to 6 above. Any adjustments in respect of the foregoing matters to the above would affect the net assets of the Group or of the Company as at 31 July 2003 and the loss and cash flows of the Group for the year then ended and/or the related disclosures thereof in these financial statements.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Disclaimer of opinion

Because of the significance of the possible effects of the scope limitations in evidence available to us as set out in the basis of opinion section of this report, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 July 2003 and of the loss and cash flows of the Group for the year then ended. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report:

- (i) we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- (ii) we were unable to determine whether proper books of accounts had been kept.

HORWATH HONG KONG CPA LIMITED

Certified Public Accountants

Shiu Hong Ng

Practising Certificate number P03752

6 October 2004

Consolidated Profit and Loss Account

Year ended 31 July 2003

	Notes	2003 HK\$	2002 HK\$
TURNOVER	5	8,670,341	23,966,892
Cost of sales		<u>(12,456,567)</u>	<u>(5,139,167)</u>
Gross (loss)/profit		(3,786,226)	18,827,725
Other revenue and gains	5	10,542,940	20,045,152
Administrative and other operating expenses		(58,281,165)	(32,448,823)
Impairment losses		(58,542,585)	(5,354,670)
Prepayments written off		<u>(12,500,000)</u>	<u>–</u>
(LOSS)/PROFIT FROM OPERATING ACTIVITIES	6	(122,567,036)	1,069,384
Finance costs	7	(1,583,071)	(5,835,324)
Share of loss of a jointly controlled entity	17	<u>(5,075,667)</u>	<u>–</u>
LOSS BEFORE TAXATION		(129,225,774)	(4,765,940)
Taxation	10	<u>–</u>	<u>–</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	<u>(129,225,774)</u>	<u>(4,765,940)</u>
LOSS PER SHARE	12		
Basic		<u>17.1 cents</u>	<u>0.7 cents</u>

Consolidated Balance Sheet

31 July 2003

	Notes	2003 HK\$	2002 HK\$
NON-CURRENT ASSETS			
Fixed assets	13	3,719,018	4,712,343
Intangible assets	14	–	55,900,000
Website development costs	15	–	377,987
Interest in a jointly-controlled entity	17	82,801,323	–
Long term investments	18	39,836,000	45,524,000
		<u>126,356,341</u>	<u>106,514,330</u>
CURRENT ASSETS			
Inventories	21	2,561,626	5,798,422
Trade receivables	19	1,943,600	349,708
Prepayments, deposits and other receivables	20	25,881,322	77,273,591
Short term investments	22	11,628,052	51,464,972
Pledged deposits		41,766,840	201,189,062
Bank balances and cash		4,023,690	31,591,038
		<u>87,805,130</u>	<u>367,666,793</u>
CURRENT LIABILITIES			
Bills payables		–	2,179,000
Other payables and accruals		10,051,748	11,820,938
Interest-bearing bank borrowings	23	63,188,669	218,928,437
		<u>73,240,417</u>	<u>232,928,375</u>
NET CURRENT ASSETS		<u>14,564,713</u>	<u>134,738,418</u>
		<u>140,921,054</u>	<u>241,252,748</u>
CAPITAL AND RESERVES			
Share capital	25	8,136,960	6,780,800
Reserves		132,784,094	234,471,948
		<u>140,921,054</u>	<u>241,252,748</u>

Cheng Kit Yin, Kelly
Director

Ngai Sai Ming
Director

Consolidated Statement of Changes in Equity

Year ended 31 July 2003

	Note	Issued share capital HK\$	Share premium account HK\$	Long term investment revaluation reserve HK\$	Accumulated losses HK\$	Total HK\$
At 1 August 2001		6,780,800	361,065,289	-	(96,075,401)	271,770,688
Deficit on revaluation		-	-	(25,752,000)	-	(25,752,000)
Net loss not recognised in profit and loss account		-	-	(25,752,000)	-	(25,752,000)
Net loss for the year		-	-	-	(4,765,940)	(4,765,940)
At 31 July 2002 and 1 August 2002		6,780,800	361,065,289	(25,752,000)	(100,841,341)	241,252,748
Issue of shares	25	1,356,160	33,225,920	-	-	34,582,080
Deficit on revaluation		-	-	(5,688,000)	-	(5,688,000)
Net loss not recognised in profit and loss account		-	-	(5,688,000)	-	(5,688,000)
Net loss for the year		-	-	-	(129,225,774)	(129,225,774)
At 31 July 2003		<u>8,136,960</u>	<u>394,291,209*</u>	<u>(31,440,000)*</u>	<u>(230,067,115)*</u>	<u>140,921,054</u>
Reserves retained by:						
Company and subsidiaries		8,136,960	394,291,209	(31,440,000)	(224,991,448)	145,996,721
Jointly controlled entity		-	-	-	(5,075,667)	(5,075,667)
31 July 2003		<u>8,136,960</u>	<u>394,291,209</u>	<u>(31,440,000)</u>	<u>(230,067,115)</u>	<u>140,921,054</u>
Company and subsidiaries		6,780,800	361,065,289	(25,752,000)	(100,841,341)	241,252,748
Jointly controlled entity		-	-	-	-	-
31 July 2002		<u>6,780,800</u>	<u>361,065,289</u>	<u>(25,752,000)</u>	<u>(100,841,341)</u>	<u>241,252,748</u>

* These reserve amounts comprise the consolidated reserves of HK\$132,784,094 (2002: HK\$234,471,948) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 July 2003

	2003 HK\$	2002 HK\$ (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(129,225,774)	(4,765,940)
Adjustments for:		
Finance costs	1,583,071	5,835,324
Share of loss of a jointly controlled entity	5,075,667	–
Interest income	(3,307,953)	(11,070,434)
Dividend income	(2,202,693)	(1,637,729)
Amortisation of website development costs	137,450	34,362
Amortisation of intangible assets	3,033,538	1,600,000
Amortisation of goodwill on acquisition of a jointly controlled entity	732,609	–
Depreciation	2,612,738	2,777,637
Gain on disposal of fixed assets	–	(38,542)
Impairment loss on website development costs	240,537	–
Impairment loss on investment	–	560,495
Impairment loss of plant and machinery under installation	–	4,794,175
Impairment loss of intellectual properties	58,302,048	–
Unrealised holding loss on short term investments	456,738	5,961,881
Prepayments written off	12,500,000	–
Operating (loss)/profit before working capital changes	(50,062,024)	4,051,229
Decrease/(increase) in inventories	3,236,796	(5,749,786)
(Increase)/decrease in trade receivables	(1,593,892)	1,863,954
Decrease/(increase) in prepayments, deposits and other receivables	32,826,639	(37,217,735)
Decrease/(increase) in short term investments	39,380,182	(13,893,718)
(Decrease)/increase in bills payable	(2,179,000)	2,179,000
Increase in trust receipt loans	4,230,000	–
Decrease in other payables and accruals	(1,769,190)	(20,700,812)
Cash generated from/(used in) operations	24,069,511	(69,467,868)
Interest received	3,937,998	10,019,538
Dividend received	2,202,693	1,637,729
Interest paid	(1,583,071)	(6,250,631)
Net cash generated from/(used in) operating activities	28,627,131	(64,061,232)

Consolidated Cash Flow Statement

Year ended 31 July 2003

	2003 HK\$	2002 HK\$ (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of a jointly controlled entity	(54,027,520)	-
Proceeds from disposals of fixed assets	-	200,000
Acquisition of long term investments	-	(71,276,000)
Acquisition of intellectual properties	-	(37,500,000)
Purchase of fixed assets	(1,619,413)	(861,067)
Website development costs	-	(412,349)
Release of/(placement of) pledged deposits	120,730,115	(70,038,010)
Net cash generated from/(used in) investing activities	<u>65,083,182</u>	<u>(179,887,426)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	48,758,094	27,046,253
Repayment of bank loans	(90,308,205)	(1,998,151)
Net cash (used in)/generated from financing activities	<u>(41,550,111)</u>	<u>25,048,102</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of year	(60,877,832)	158,022,724
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>(8,717,630)</u>	<u>(60,877,832)</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	4,023,690	21,588,281
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities	18,466,840	57,158,947
Other deposits	-	10,002,757
Bank overdrafts	(31,208,160)	(149,627,817)
	<u>(8,717,630)</u>	<u>(60,877,832)</u>

Balance Sheet

31 July 2003

	Notes	2003 HK\$	2002 HK\$
NON-CURRENT ASSETS			
Fixed assets	13	407,732	2,231,121
Investments in subsidiaries	16	–	–
Due from subsidiaries		118,794,884	33,391,563
Long term investments	18	39,836,000	45,524,000
		159,038,616	81,146,684
CURRENT ASSETS			
Prepayments, deposits and other receivables	20	373,007	15,304,348
Short term investments	22	11,516,452	51,116,222
Pledged deposits		34,611,213	169,630,572
Bank balances and cash		446,611	21,134,731
		46,947,283	257,185,873
CURRENT LIABILITIES			
Other payables and accruals		3,226,000	915,424
Due to subsidiaries		–	33,358,523
Interest-bearing bank borrowings	23	5,106,506	25,445,494
		8,332,506	59,719,441
NET CURRENT ASSETS			
		38,614,777	197,466,432
		197,653,393	278,613,116
CAPITAL AND RESERVES			
Share capital	25	8,136,960	6,780,800
Reserves	27	189,516,433	271,832,316
		197,653,393	278,613,116

Cheng Kit Yin, Kelly
Director

Ngai Sai Ming
Director

Notes to the Financial Statements

31 July 2003

1. CORPORATE INFORMATION

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 Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Group was involved in the following principal activities:

- trading of Chinese herbal products
- provision of portal development and information technology advisory services and consultation services
- provision of advertising services

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs, which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 28 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

Notes to the Financial Statements

31 July 2003

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) *(continued)*

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries and jointly-controlled entity are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for “Foreign currencies” in note 3 to the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes and the restatement that has resulted from them are included in the accounting policies for “Cash and cash equivalents” and “Foreign currencies” in notes 3 and 28(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company’s share option scheme, as detailed in note 26 to the financial statements. These share option scheme disclosures are similar to the disclosures under the Rules Governing the Listing of Securities (the “GEM Listing Rules”) on the GEM of the Stock Exchange previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

Notes to the Financial Statements

31 July 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 July 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties are interested.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Joint venture companies *(continued)*

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's interests in jointly-controlled entities.

Goodwill

Goodwill arising on the acquisition of jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years. In the case of jointly controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Notes to the Financial Statements

31 July 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

On disposal of jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to the Financial Statements

31 July 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the lease terms
Machinery and office equipment	20% - 33 ¹ / ₃ %
Motor vehicles	25%
Furniture and fixtures	33 ¹ / ₃ %

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets

Intellectual properties

Purchased intellectual properties are stated at cost less any impairment losses and are amortised on the straight line basis over their estimated useful lives of 20 years.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

Notes to the Financial Statements

31 July 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Website development costs

The costs incurred in acquiring website databases, website applications and infrastructure are capitalised and amortised over a period of three years. The carrying values of these costs are reviewed annually to determine whether any impairment loss is required. Other website development costs are charged to the profit and loss account in the period in which they are incurred.

Leased assets

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments are non-trading investments in listed equity securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis.

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account in the period in which the impairment arises.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Notes to the Financial Statements

31 July 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Receivables

Provision is made against receivables to the extent they are considered to be doubtful. Receivables in the balance sheet are stated net of such provision.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. The consolidated cash flow statement has been restated to comply with the requirement of revised SSAP15, details of which are described in note 28 to the financial statements.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Financial Statements

31 July 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) advertising income, recognised ratably over the period in which the advertisement is displayed, provided that no significant obligations remain at the end of a period. Obligations typically include the guarantee of a minimum number of impressions or times that an advertisement appears in pages viewed by the users of the Group's online properties. To the extent that minimum guaranteed impressions are not met, the Group defers recognition of the corresponding revenue until the remaining impressions are delivered;
- (b) portal development and information technology advisory and consultation income, when the services are provided;
- (c) sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (e) dividend income, when the shareholders' right to receive payment has been established; and
- (f) income from the use of trademarks, in accordance with the terms of the agreement.

Notes to the Financial Statements

31 July 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

Notes to the Financial Statements

31 July 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

On consolidation, the financial statements of overseas subsidiaries and jointly-controlled entity are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and jointly-controlled entity are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and jointly-controlled entity and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. These changes have had no material effect on the amounts reported in previous years' financial statements.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the herbal products segment engages in the trading of Chinese herbal products;
- (b) the advisory services segment engages in the provision of portal development and information technology advisory services and consultation services; and
- (c) the advertising services segment engages in the provision of advertising services.

Notes to the Financial Statements

31 July 2003

4. SEGMENT INFORMATION *(continued)*

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

(a) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments.

2003

	Herbal products HK\$	Advisory services HK\$	Advertising services HK\$	Consolidated HK\$
SEGMENT REVENUE				
Turnover	<u>7,367,493</u>	<u>1,219,988</u>	<u>82,860</u>	<u>8,670,341</u>
SEGMENT RESULTS	<u>(28,110,070)</u>	<u>302,924</u>	<u>(4,966,449)</u>	<u>(32,773,595)</u>
Unallocated corporate expenses				<u>(18,750,856)</u>
Impairment losses and prepayments written off				<u>(71,042,585)</u>
Loss from operating activities				<u>(122,567,036)</u>
Finance costs				<u>(1,583,071)</u>
Share of loss of a jointly controlled entity				<u>(5,075,667)</u>
Loss before taxation				<u>(129,225,774)</u>
Taxation				<u>-</u>
Net loss from ordinary activities attributable to shareholders				<u>(129,225,774)</u>

Notes to the Financial Statements

31 July 2003

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

2003

	Herbal products HK\$	Advisory services HK\$	Advertising services HK\$	Consolidated HK\$
Segment assets	<u>7,867,019</u>	<u>1,464,158</u>	<u>4,598,750</u>	13,929,927
Unallocated assets				<u>200,231,544</u>
Total assets				<u>214,161,471</u>
Segment liabilities	<u>5,793,055</u>	<u>72,890</u>	<u>19,863,599</u>	25,729,544
Unallocated liabilities				<u>47,510,873</u>
Total liabilities				<u>73,240,417</u>
Other segment information:				
Additions to fixed assets	645,900	-	-	645,900
Additions to intangible assets	5,435,586	-	-	5,435,586
Depreciation	491,364	-	-	491,364
Amortisation and impairment of website development costs	-	-	377,987	377,987
Amortisation of intangible assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes to the Financial Statements

31 July 2003

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

2002

	Herbal products HK\$	Advisory services HK\$	Advertising services HK\$	Consolidated HK\$
SEGMENT REVENUE				
Turnover	<u>11,495,545</u>	<u>9,906,014</u>	<u>2,565,333</u>	<u>23,966,892</u>
SEGMENT RESULTS	<u>3,462,074</u>	<u>4,742,702</u>	<u>181,714</u>	8,386,490
Unallocated corporate expenses				(1,962,436)
Impairment losses				<u>(5,354,670)</u>
Profit from operating activities				1,069,384
Finance costs				<u>(5,835,324)</u>
Loss before taxation				(4,765,940)
Taxation				<u>-</u>
Net loss from ordinary activities attributable to shareholders				<u>(4,765,940)</u>

Notes to the Financial Statements

31 July 2003

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

2002

	Herbal products HK\$	Advisory services HK\$	Advertising services HK\$	Consolidated HK\$
Segment assets	<u>64,179,644</u>	<u>786,259</u>	<u>9,584,925</u>	74,550,828
Unallocated assets				<u>399,630,295</u>
Total assets				<u>474,181,123</u>
Segment liabilities	<u>9,996,983</u>	<u>75,249</u>	<u>123,202</u>	10,195,434
Unallocated liabilities				<u>222,732,941</u>
Total liabilities				<u>232,928,375</u>
Other segment information:				
Additions to fixed assets	2,499,000	263,534	263,533	3,026,067
Additions to intangible assets	57,500,000	-	-	57,500,000
Additions to website development costs	-	-	412,349	412,349
Depreciation	17,778	759,153	759,153	1,536,084
Amortisation of website development costs	-	-	34,362	34,362
Amortisation of intangible assets	<u>1,600,000</u>	<u>-</u>	<u>-</u>	<u>1,600,000</u>

Notes to the Financial Statements

31 July 2003

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following table provides an analysis of the Group's turnover by geographical market:

	Turnover		(Loss)/profit from operating activities	
	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$
By geographical market:				
Hong Kong	3,688,341	13,255,812	(48,433,464)	4,693,290
The United States of America ("USA")	4,982,000	10,711,080	(1,012,000)	5,175,568
	<u>8,670,341</u>	<u>23,966,892</u>	<u>(49,445,464)</u>	<u>9,868,858</u>
Impairment losses and prepayments written off			(71,042,585)	(5,354,670)
Unallocated corporate expenses			<u>(2,078,987)</u>	<u>(3,444,804)</u>
(Loss)/profit from operating activities			<u>(122,567,036)</u>	<u>1,069,384</u>

All of the segment assets and additions to tangible and intangible assets are located in Hong Kong.

Notes to the Financial Statements

31 July 2003

5. TURNOVER, OTHER REVENUE AND GAINS

	2003 HK\$	2002 HK\$
Turnover		
Sale of goods	7,450,353	11,495,545
Rendering of services	<u>1,219,988</u>	<u>12,471,347</u>
	<u>8,670,341</u>	<u>23,966,892</u>
Other revenue		
Interest income	3,307,953	11,070,434
Income from the use of trademarks	4,166,667	2,430,556
Dividend income	2,202,693	1,637,729
Commission income	-	891,000
Others	<u>865,627</u>	<u>903,365</u>
	<u>10,542,940</u>	<u>16,933,084</u>
Gains		
Gain on disposal of short term and long term investments	-	3,073,526
Gain on disposal of fixed assets	<u>-</u>	<u>38,542</u>
	<u>-</u>	<u>3,112,068</u>
Other revenue and gains	<u>10,542,940</u>	<u>20,045,152</u>

Notes to the Financial Statements

31 July 2003

6. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

The Group's (loss)/profits from operating activities is arrived at after charging/(crediting):

	2003	2002
	HK\$	HK\$
Depreciation	2,612,738	2,777,637
Amortisation of intangible assets	3,033,538	1,600,000
Amortisation of website development costs	137,450	34,362
Amortisation of goodwill on acquisition of a jointly controlled entity	732,609	-
Research and development costs	6,532,987	359,127
Website development costs	-	1,172,089
Less: Amount capitalised	-	(412,349)
	<u>-</u>	<u>759,740</u>
Minimum lease payments under operating leases in respect of land and buildings	3,056,886	1,860,000
Auditors' remuneration	1,600,000	316,820
Staff costs including directors' remuneration:		
Salaries and other allowances	8,842,638	8,347,906
Pension scheme contributions	128,647	150,174
	<u>8,971,285</u>	<u>8,498,080</u>
Impairment loss on intellectual properties	58,302,048	-
Impairment loss on website development costs	240,537	-
Impairment loss on investment	-	560,495
Impairment loss on plant and machinery under installation	-	4,794,175
	<u>58,542,585</u>	<u>5,354,670</u>
Unrealised holding loss on short term investments	456,738	5,961,881
	<u>456,738</u>	<u>5,961,881</u>

7. FINANCE COSTS

	Group	
	2003	2002
	HK\$	HK\$
Interest on bank loans and overdrafts wholly repayable within five years	1,583,071	5,835,324
	<u>1,583,071</u>	<u>5,835,324</u>

Notes to the Financial Statements

31 July 2003

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2003	2002
	HK\$	HK\$
Executive directors:		
Salaries and other allowances	3,405,000	3,400,000
Pension scheme contributions	19,000	24,000
	<u>3,424,000</u>	<u>3,424,000</u>
Non-executive directors:		
Salaries and other allowances	216,000	248,000
Independent non-executive directors:		
Salaries and other allowances	171,871	192,000
	<u>3,811,871</u>	<u>3,864,000</u>

The two executive directors received emoluments of HK\$2,442,000 (2002: HK\$1,812,000) and HK\$982,000 (2002: HK\$1,612,000) respectively for the year ended 31 July 2003.

The non-executive directors received emoluments of HK\$96,000 (2002: HK\$96,000), HK\$96,000 (2002: HK\$56,000) and HK\$24,000 (2002: HK\$96,000) respectively for the year ended 31 July 2003.

The independent non-executive directors received emoluments of HK\$40,000 (2002: HK\$96,000), HK\$96,000 (2002: HK\$96,000) and HK\$35,871 (2002: Nil) respectively for the year ended 31 July 2003.

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

Notes to the Financial Statements

31 July 2003

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2002: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2002: three) non-directors, highest paid employees for the year are as follows:

	Group	
	2003 HK\$	2002 HK\$
Salaries and other allowances	1,226,861	1,342,248
Pension scheme contributions	35,858	36,000
	<u>1,262,719</u>	<u>1,378,248</u>

The aggregate emolument of each of the highest paid employees was less than HK\$1,000,000 for the year.

10. TAXATION

No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the year.

Details of unprovided deferred tax during the year are set out in note 24 to the financial statements.

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 July 2003 dealt with in the financial statements of the Company, was HK\$109,853,803 (2002: HK\$34,429,465) (note 27).

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$129,225,774 (2002: HK\$4,765,940) and the weighted average of 754,247,890 (2002: 678,080,000) ordinary shares in issue during the year.

Notes to the Financial Statements

31 July 2003

12. LOSS PER SHARE *(continued)*

As the exercise price of the outstanding share options was higher than the average market price of the Company's shares during the year ended 31 July 2003, they exerted no dilution effect on the basic loss per share for the year ended 31 July 2003. Diluted loss per share amount for the year ended 31 July 2002 has not been disclosed as the share options outstanding during that year had an anti-dilutive effect on the basic loss per share for that year.

13. FIXED ASSETS

Group

	Leasehold improvements	Plant and machinery under installation <i>(Note a)</i>	Machinery and office equipment	Motor vehicle	Furniture and fixtures	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Cost:						
At beginning of year	2,521,250	4,794,175	7,172,346	-	290,051	14,777,822
Additions	300,000	-	1,091,413	200,000	28,000	1,619,413
At 31 July 2003	<u>2,821,250</u>	<u>4,794,175</u>	<u>8,263,759</u>	<u>200,000</u>	<u>318,051</u>	<u>16,397,235</u>
Accumulated depreciation and impairment:						
At beginning of year	1,807,583	4,794,175	3,277,469	-	186,252	10,065,479
Provided during the year	890,138	-	1,620,096	16,667	85,837	2,612,738
At 31 July 2003	<u>2,697,721</u>	<u>4,794,175</u>	<u>4,897,565</u>	<u>16,667</u>	<u>272,089</u>	<u>12,678,217</u>
Net book value:						
At 31 July 2003	<u>123,529</u>	<u>-</u>	<u>3,366,194</u>	<u>183,333</u>	<u>45,962</u>	<u>3,719,018</u>
At 31 July 2002	<u>713,667</u>	<u>-</u>	<u>3,894,877</u>	<u>-</u>	<u>103,799</u>	<u>4,712,343</u>

Note a: Plant and machinery under installation were recorded in the books of Beijing Weston Biological-technology Co., Ltd. which was disposed of subsequent to the year end. Details are disclosed in note 32 to the financial statements.

Notes to the Financial Statements

31 July 2003

13. FIXED ASSETS (continued)

Company	Leasehold improvements	Machinery and office equipment	Furniture and fixtures	Total
	HK\$	HK\$	HK\$	HK\$
Cost:				
At beginning of year	2,521,250	4,673,346	290,051	7,484,647
Additions	–	29,204	28,000	57,204
	<u>2,521,250</u>	<u>4,702,550</u>	<u>318,051</u>	<u>7,541,851</u>
At 31 July 2003	2,521,250	4,702,550	318,051	7,541,851
Accumulated depreciation:				
At beginning of year	1,807,583	3,259,691	186,252	5,253,526
Provided during the year	713,667	1,081,089	85,837	1,880,593
	<u>2,521,250</u>	<u>4,340,780</u>	<u>272,089</u>	<u>7,134,119</u>
At 31 July 2003	2,521,250	4,340,780	272,089	7,134,119
Net book value:				
At 31 July 2003	–	361,770	45,962	407,732
	<u>–</u>	<u>361,770</u>	<u>45,962</u>	<u>407,732</u>
At 31 July 2002	713,667	1,413,655	103,799	2,231,121
	<u>713,667</u>	<u>1,413,655</u>	<u>103,799</u>	<u>2,231,121</u>

Notes to the Financial Statements

31 July 2003

14. INTANGIBLE ASSETS

Group

	Intellectual properties HK\$	Technology knowhow HK\$	Total HK\$
At beginning of year:			
Cost	57,500,000	1,494,884	58,994,884
Accumulated amortisation	<u>(1,600,000)</u>	<u>(1,494,884)</u>	<u>(3,094,884)</u>
Opening carrying amount	55,900,000	–	55,900,000
Additions	5,435,586	–	5,435,586
Amortisation charges	(3,033,538)	–	(3,033,538)
Impairment losses	<u>(58,302,048)</u>	<u>–</u>	<u>(58,302,048)</u>
Closing carrying amount	<u>–</u>	<u>–</u>	<u>–</u>
At balance sheet date:			
Cost	62,935,586	1,494,884	64,430,470
Accumulated amortisation and impairment	<u>(62,935,586)</u>	<u>(1,494,884)</u>	<u>(64,430,470)</u>
Closing carrying amount	<u>–</u>	<u>–</u>	<u>–</u>

The intellectual properties represent the traditional Chinese medicine formulae and certain protocols for herbal medicine.

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

Notes to the Financial Statements

31 July 2003

15. WEBSITE DEVELOPMENT COSTS

	Group HK\$
At beginning of year:	
Cost	26,946,020
Accumulated amortization and impairment	<u>(26,568,033)</u>
Opening carrying amount	377,987
Amortisation charges	(137,450)
Impairment losses	<u>(240,537)</u>
Closing carrying amount	<u>–</u>
At balance sheet date:	
Cost	26,946,020
Accumulated amortisation and impairment	<u>(26,946,020)</u>
Closing carrying amount	<u><u>–</u></u>

16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$	HK\$
Unlisted shares, at cost	13,227,658	13,227,650
Less: Impairment losses	<u>(13,227,658)</u>	<u>(13,227,650)</u>
	<u><u>–</u></u>	<u><u>–</u></u>

Notes to the Financial Statements

31 July 2003

16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation	Nominal value of issued share capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
			%	%	
herbs N senses Health Products Limited	Hong Kong	HK\$2	-	100	Trading of Chinese herbal products
GreaterChinaherbs.com Limited	British Virgin Islands	US\$2	100	-	Provision of online general healthcare content
Ladiesasia Limited	British Virgin Islands	US\$1	100	-	Provision of online general content for Asian women
i.Business Limited	Hong Kong	HK\$2	100	-	Portal development
GreaterChina Technology Exchange Limited	Hong Kong	HK\$2	-	100	Consultation services and trading of Chinese herbal products
GreaterChina Investment Limited	British Virgin Islands	US\$1	100	-	Investment holding
iSolutions Development Limited	Hong Kong	HK\$2	100	-	Portal development
GreaterChina Biotherapeutics Company Limited	British Virgin Islands	US\$1	100	-	Holding of intellectual properties

Notes to the Financial Statements

31 July 2003

16. INVESTMENTS IN SUBSIDIARIES *(continued)*

The above table includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

17. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2003 HK\$	2002 HK\$
Share of net assets	58,415,920	-
Goodwill on acquisition	24,385,403	-
	<u>82,801,323</u>	<u>-</u>

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Guangdong Jianlibao Pharmaceutical Co., Ltd. ("JLB")	Corporate	The People's Republic of China	80%	60%	80%	Manufacture and sale of pharmaceutical and healthcare products

Pursuant to the agreement for the acquisition of JLB, the Group is entitled to a guarantee from the vendor in respect of the earnings before interest, depreciation, tax and amortisation ("Ebidta") of JLB not less than RMB8,000,000 and RMB12,000,000 for the year ended 31 December 2003 and the year ending 31 December 2004 respectively under the accounting principles generally accepted in the People's Republic of China (the "PRC"). If the Ebidta for the year ended 31 December 2003 shall exceed the guaranteed amount, the excess shall be used to calculate the Ebidta for the year ending 31 December 2004 and vice versa.

Notes to the Financial Statements

31 July 2003

17. INTEREST IN A JOINTLY-CONTROLLED ENTITY

(continued)

Details of the operating results and financial position of JLB based on the unaudited financial statements are as follow:

	HK\$
Operating results of the year ended 31 July 2003	
Turnover	<u>7,641,953</u>
Loss from ordinary activities before taxation	<u>(6,344,584)</u>
Loss from ordinary activities before taxation attributable to the Group	<u>(5,075,667)</u>
	HK\$
Financial position at 31 July 2003	
Total non-current assets	101,236,468
Total current assets	9,722,397
Total current liabilities	(11,759,538)
Total non-current liabilities	<u>(26,179,427)</u>
Shareholders' funds	<u>73,019,900</u>
Amount attributable to the Group	<u>58,415,920</u>

18. LONG TERM INVESTMENTS

	Group and Company	
	2003	2002
	HK\$	HK\$
Listed equity securities in Hong Kong, at market value	<u>39,836,000</u>	<u>45,524,000</u>

Notes to the Financial Statements

31 July 2003

19. TRADE RECEIVABLES

The Group allows an average credit period of 60 to 90 days to its trade customers. An aged analysis of the trade receivables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003 HK\$	2002 HK\$
0 - 60 days	636,965	42,400
61 - 90 days	53,020	3,708
Over 90 days	<u>1,253,615</u>	<u>303,600</u>
	<u><u>1,943,600</u></u>	<u><u>349,708</u></u>

Included in the Group's trade receivables is an amount of HK\$300,000 due from Ms. Cheng Kit Yin, Kelly, a director of the Company (2002: Nil), which is repayable on credit terms similar to those offered to the customers of the Group. The amount represented the maximum balance outstanding during the year.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	Group		Company	
		2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Prepayments	(i)	5,429,511	25,495,120	62,500	12,562,500
Deposits for investment projects	(ii)	2,000,000	43,110,000	-	1,229,015
Utility and other deposits	(iii)	15,655,050	6,083,353	2,500	2,500
Interest and other receivables		766,341	1,896,935	308,007	1,510,333
Due from related companies	(iv)	<u>2,030,420</u>	<u>688,183</u>	<u>-</u>	<u>-</u>
		<u><u>25,881,322</u></u>	<u><u>77,273,591</u></u>	<u><u>373,007</u></u>	<u><u>15,304,348</u></u>

Notes to the Financial Statements

31 July 2003

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

Notes:

- (i) Included in the prepayments as at 31 July 2002 were prepayment of HK\$15,000,000 paid in respect of acquiring the right to use a farmland as a research and development centre for a period of five years from 1 August 2002 to 31 July 2007 and prepayments of HK\$8,490,000 for certain advertising campaigns. A prepayment in the amount of HK\$3,000,000 in respect of acquiring the right to use a farmland was expensed as research and development costs in the current year's profit and loss account with a remaining amount of HK\$12,000,000 written off in year ended 31 July 2003. The prepayments of HK\$3,891,250 for advertising campaigns were expensed in the current year's profit and loss account with a remaining carrying amount of HK\$4,598,750 as at 31 July 2003.
- (ii) Included in the deposits for investment projects as at 31 July 2002 were deposits of HK\$40,000,000 (approximately HK\$1 million included in the Company's deposits for investment projects) paid in respect of the intended acquisition of a pharmaceutical company each in the PRC and the USA. The deposits were refunded to the extent of HK\$39,500,000 during the current year and the remaining amount of HK\$500,000 was written off in the year ended 31 July 2003.
- (iii) Included in the utility and other deposits as at 31 July 2002 was a deposit of approximately HK\$5,435,586 paid to acquire intellectual properties. This deposit was transferred to intellectual properties in current year. Included in the utility and other deposits as at 31 July 2003 was a deposit of HK\$15,630,000 paid to a contractor in relation to the construction of a pharmaceutical plant in the PRC.
- (iv) The amounts are due from China Rich Holdings Limited and certain of its subsidiaries ("China Rich Group") and are unsecured, interest-free and have no fixed terms of repayment. Ms. Cheng Kit Yin, Kelly and Mr. Kam Shing, directors of the Company, have beneficial interests in and are also directors of China Rich Group. The maximum amount outstanding during the year was HK\$2,030,420.

21. INVENTORIES

	Group	
	2003	2002
	HK\$	HK\$
Inventories comprise:		
Raw materials	1,466,236	-
Finished goods	1,095,390	5,798,422
	<u>2,561,626</u>	<u>5,798,422</u>

Notes to the Financial Statements

31 July 2003

22.SHORT TERM INVESTMENTS

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Securities, at market value:				
Listed equity securities in Hong Kong	11,628,052	28,818,452	11,516,452	28,469,702
Quoted investment funds outside Hong Kong	-	22,646,520	-	22,646,520
	<u>11,628,052</u>	<u>51,464,972</u>	<u>11,516,452</u>	<u>51,116,222</u>

23.INTEREST-BEARING BANK BORROWINGS

The bank loans and overdrafts were secured by certain bank deposits and certain long term and short term investments of the Group and the Company.

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Bank overdrafts – secured	31,208,160	149,627,817	5,106,506	25,445,494
Bank loans – secured	27,750,509	69,300,620	-	-
Trust receipt loans	4,230,000	-	-	-
	<u>63,188,669</u>	<u>218,928,437</u>	<u>5,106,506</u>	<u>25,445,494</u>

Notes to the Financial Statements

31 July 2003

24. DEFERRED TAXATION

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

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Other timing differences	87,500	-	-	-
Accelerated depreciation allowances	(445,500)	(184,000)	(278,000)	(91,000)
Tax losses	24,054,000	20,864,000	5,882,000	7,689,000
	<u>23,696,000</u>	<u>20,680,000</u>	<u>5,604,000</u>	<u>7,598,000</u>

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

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

	Group	
	2003 HK\$	2002 HK\$
Other timing differences	87,500	-
Accelerated depreciation allowances	(261,500)	426,000
Tax losses arising/(utilised)	3,190,000	(363,000)
	<u>3,016,000</u>	<u>63,000</u>

Notes to the Financial Statements

31 July 2003

25. SHARE CAPITAL

Shares

	2003 HK\$	2002 HK\$
Authorised:		
2,000,000,000 ordinary shares of HK\$0.01 each	<u>20,000,000</u>	<u>20,000,000</u>
Issued and fully paid:		
813,696,000 (2002: 678,080,000) ordinary shares of HK\$0.01 each	<u>8,136,960</u>	<u>6,780,800</u>

During the year, the Company allotted and issued 135,616,000 ordinary shares of HK\$0.01 each as satisfaction of part of the consideration amounting to HK\$34,582,080 (out of total effective consideration of approximately HK\$88,600,000) for the acquisition of the entire issued capital of Power Essence Ltd., a company incorporated in the British Virgin Islands, whose principal asset is its indirect interest of 80% in a jointly controlled entity, Guangdong Jianlibao Pharmaceutical Co., Ltd. Further details of the transaction are set out in the Company's circular dated 26 November 2002. The excess of HK\$33,225,920 of the estimated fair value of the Company's shares issued at the date of completion of acquisition over the nominal value of the shares is recorded in the share premium account.

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 26 to the financial statements.

26. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the GEM Listing Rules.

Pursuant to an ordinary resolution in writing of the sole shareholder of the Company passed on 21 February 2000, the Company adopted a 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 20 February 2010.

Notes to the Financial Statements

31 July 2003

26. SHARE OPTION SCHEME *(continued)*

On 8 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 purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations in compliance with the amended Chapter 23 of the GEM Listing Rules. All the share options granted under the Old Scheme which remained outstanding on the date of termination of that scheme continue to be valid and exercisable in accordance with the provisions of that scheme.

Eligible participants of the Revised Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholder in the Company's subsidiaries. The Revised Scheme became effective on 18 April 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Revised Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Revised Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences from the date of acceptance of the offer for the grant of options but shall end in any event not later than ten years from the date on which the offer for grant of the option is made subject to the provisions for early termination thereof.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

Notes to the Financial Statements

31 July 2003

26. SHARE OPTION SCHEME (continued)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding during the year:

	Date of grant of share options	Exercise period of share options	Exercise price HK\$	Number of share options		
				At 1 August 2002	Cancelled during the year	At 31 July 2003
Directors						
Ms. Cheng Kit Yin,	19.12.2000	<i>note (i)</i>	0.218	16,000,000	-	16,000,000
Kelly	4.6.2002	4.6.2002-18.4.2012	0.234	51,808,000	-	51,808,000
Mr. Kam Shing	19.4.2002	19.4.2002-18.4.2012	0.234	1,000,000	-	1,000,000
Dr. Ngai Sai Ming	19.4.2002	19.4.2002-18.4.2012	0.234	5,000,000	-	5,000,000
Dr. Lau Lap Ping	19.4.2002	19.4.2002-18.4.2012	0.234	1,000,000	-	1,000,000
Mr. Mak Shiu Chung,	19.12.2000	<i>note (i)</i>	0.218	7,500,000	(7,500,000)	-
Godfrey (resigned on 18 February 2003)	19.4.2002	19.4.2002-18.4.2012	0.234	5,000,000	(5,000,000)	-
Mr. Heng Kwo Seng (resigned on 31 December 2002)	19.4.2002	19.4.2002-18.4.2012	0.234	1,000,000	(1,000,000)	-
Ms. Lau Sio Kuan, Vivian (resigned on 15 November 2002)	19.4.2002	19.4.2002-18.4.2012	0.234	1,000,000	(1,000,000)	-
				<u>89,308,000</u>	<u>(14,500,000)</u>	<u>74,808,000</u>
Other employees						
In aggregate	19.12.2000	<i>note (i)</i>	0.218	7,800,000	(5,000,000)	2,800,000
	19.4.2002	19.4.2002-18.4.2012	0.234	4,600,000	(2,000,000)	2,600,000
				<u>12,400,000</u>	<u>(7,000,000)</u>	<u>5,400,000</u>
				<u>101,708,000</u>	<u>(21,500,000)</u>	<u>80,208,000</u>

Notes to the Financial Statements

31 July 2003

26. SHARE OPTION SCHEME (continued)

Note:

- (i) The exercise period is from the vesting date to 20 February 2010. The share options are vested in different tranches and lapse when the grantee ceases to be employed by the Group.

At the balance sheet date, the Company had 80,208,000 share options outstanding under the Old Scheme and the Revised Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 80,208,000 additional ordinary shares of the Company and additional share capital of HK\$802,080 and share premium of HK\$17,665,792 (before issue expenses).

27. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 28 of the financial statements.

Company

	Share premium account HK\$	Long term investment revaluation reserve HK\$	Accumulated losses HK\$	Total HK\$
At 1 August 2001	361,065,289	-	(29,051,508)	332,013,781
Net loss for the year	-	-	(34,429,465)	(34,429,465)
Deficit on revaluation	-	(25,752,000)	-	(25,752,000)
At 31 July 2002 and 1 August 2002	361,065,289	(25,752,000)	(63,480,973)	271,832,316
Issue of shares	33,225,920	-	-	33,225,920
Net loss for the year	-	-	(109,853,803)	(109,853,803)
Deficit on revaluation	-	(5,688,000)	-	(5,688,000)
At 31 July 2003	<u>394,291,209</u>	<u>(31,440,000)</u>	<u>(173,334,776)</u>	<u>189,516,433</u>

Notes to the Financial Statements

31 July 2003

27. RESERVES *(continued)*

Company *(continued)*

Under the Companies Law (1998 Revised) of the Cayman Islands, the share premium account and reserves of the Company are 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 or 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 and reserves accounts subject to the provision of the Companies Law (1998 Revision) of the Cayman Islands.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Restatement of consolidated cash flow statement for 2002

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that interest paid and interest and dividends received are now included in cash flows from operating activities. The consolidated cash flow statement for 2002 included as comparative has been represented to accord with the new layout.

Also, the definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 3 to the financial statements. This has resulted in certain pledged deposits and bank loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31 July 2002 has been adjusted to remove pledged deposits and bank loans amounting to HK\$144,030,115 and HK\$69,300,620 respectively as previously included at that date. The year's movement in pledged deposits and bank loans is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

Notes to the Financial Statements

31 July 2003

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Major non-cash transaction

As further detailed in note 25 to the financial statements, the Company allotted and issued 135,616,000 ordinary shares of HK\$0.01 each at HK\$0.2550 per share as satisfaction of part of the consideration amounting to HK\$34,582,080 for the acquisition of a company whose principal asset is its interest in a jointly controlled entity.

29. RELATED PARTY TRANSACTIONS

In addition to the balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

- (i) The Group paid rental of HK\$2,062,571 (2002: HK\$804,000) 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\$600,000 (2002: HK\$764,240) to the China Rich Group. The fee is charged at a fixed monthly fee determined by directors based on estimated time spent by the staff of the China Rich Group on the affairs of the Group.
- (iii) The Group paid website development costs of HK\$600,000 (2002: HK\$720,000) to the China Rich Group pursuant to the agreement entered into between the parties dated 3 January 2000. The fee was determined at prices agreed between the parties.
- (iv) The Group sold goods amounting to HK\$300,000 (2002: Nil) to Ms. Cheng Kit Yin, Kelly, a director of the Company according to the published prices and conditions offered to the customers of the Group.
- (v) The Group paid management fee of HK\$951,480 (2002: HK\$766,645) to Fitzroya Investments Pte Ltd., a company of which Ms. Cheng Kit Yin, Kelly is a director, in respect of marketing and promotional services provided for the Group in Singapore and Malaysia. The fee is charged at a monthly fee pursuant to an agreement entered into between the parties.

Notes to the Financial Statements

31 July 2003

29. RELATED PARTY TRANSACTIONS (continued)

- (vi) The Group paid rentals of HK\$600,000 (2002: HK\$600,000) to Fitzroya International Holdings Limited, a company of which Mr. Kam Shing is a director. The charges are based on the areas occupied by the Group pursuant to agreements entered into between the parties. The unit rate per square feet was determined by the directors based on estimated market rates.
- (vii) The Group received information technology advisory income of HK\$269,188 (2002: HK\$345,300) from the China Rich Group. The fee was determined at prices agreed between the parties and was similar to terms offered to other clients.
- (viii) The Group received information technology advisory income of HK\$906,940 (2002: Nil) from CR Airways Limited, a company beneficially owned by the controlling shareholder of the China Rich Group.
- (ix) In the prior year, the China Rich Group provided qualified Chinese herbalist doctors to handle online enquiries from the users of the Group's website. In respect of the services provided, the Group paid a consultancy fee of HK\$161,667 to the China Rich Group in 2002.
- (x) In the prior year, the Group received advertising fee income of HK\$810,000 from the China Rich Group. The fee was determined at prices agreed between the parties.
- (xi) During the year, the Group purchased a motor vehicle of HK\$200,000 (2002: Nil) from the China Rich Group.

30. COMMITMENTS

- (a) The Group leases its office premises and staff quarter under operating lease arrangements, with leases negotiated for an average term of two years.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$
Within one year	965,000	1,310,000	715,000	710,000
In the second to fifth year, inclusive	-	250,000	-	-
	<u>965,000</u>	<u>1,560,000</u>	<u>715,000</u>	<u>710,000</u>

- (b) As at 31 July 2003, the Group had commitments amounting to HK\$5,344,960 (2002: Nil) in respect of contributions to research and development projects.

Notes to the Financial Statements

31 July 2003

31. CONTINGENT LIABILITIES

- (a) The Company is currently a defendant in a lawsuit brought by a party alleging that the Company had entered into an agreement with the plaintiff whereby the Company agreed to pay finder's fee in consideration of the plaintiff's service of introducing strategic investor to the Company prior to its initial public offering. The directors, based on the legal advice, believe that the Company has a valid defence to the litigation and, accordingly, have not provided for the claim of HK\$1,200,000 arising from the litigation.
- (b) The Company has given unlimited cross guarantees to banks to secure general banking facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31 July 2003 amounted to approximately HK\$58,082,000 (2002: HK\$195,663,000).

32. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 9 December 2003, iCare Technology Limited ("iCare"), a wholly-owned subsidiary of the Company, entered into a share transfer agreement with a third party, whereby iCare disposed of its 60% interest in a subsidiary, Weston Investment Limited, for a cash consideration of HK\$270,000. The principal asset of Weston Investment Limited is its 75% interest in Beijing Weston Biological-technology Co., Limited. Weston Investment Limited had a deficiency in net assets of approximately HK\$785,000 at the date of disposal. The disposal was completed on 13 December 2003.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 6 October 2004.

Financial Summary

For the year ended 31 July 2003

RESULTS

	(Note 1)		(Note 2)	(Note 3)		
	1999	2000	13/1/2000 to 31/7/2000	2001	2002	2003
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Turnover	-	3,205,239	3,205,239	6,769,009	23,966,892	8,670,341
Cost of sales	-	(648,690)	(648,690)	(89,431)	(5,139,167)	(12,456,567)
Gross profit	-	2,556,549	2,556,549	6,679,578	18,827,725	(3,786,226)
Other revenue and gains	-	8,547,260	8,547,260	21,364,896	20,045,152	10,542,940
Administrative and other operating expenses	(1,414,652)	(16,722,235)	(13,686,821)	(72,343,735)	(32,448,823)	(58,281,165)
Impairment losses	-	-	-	(20,438,351)	(5,354,670)	(58,542,585)
Slotting fee	-	(23,340,000)	(23,340,000)	-	-	-
Provision for impairment loss	-	-	-	-	-	(12,500,000)
Profit/(loss) from operating activities	(1,414,652)	(28,958,426)	(25,923,012)	(64,737,612)	1,069,384	(122,567,036)
Finance costs	-	(723,746)	(723,746)	(8,582,008)	(5,835,324)	(1,583,071)
Share of loss of a jointly controlled entity	-	-	-	-	-	(5,075,667)
Loss before tax	(1,414,652)	(29,682,172)	(26,646,758)	(73,319,620)	(4,765,940)	(129,225,774)
Tax	-	-	-	-	-	-
Loss before minority interests	(1,414,652)	(29,682,172)	(26,646,758)	(73,319,620)	(4,765,940)	(129,225,774)
Minority interests	-	(369,516)	(369,516)	4,260,493	-	-
Net loss for the year/period	<u>(1,414,652)</u>	<u>(30,051,688)</u>	<u>(27,016,274)</u>	<u>(69,059,127)</u>	<u>(4,765,940)</u>	<u>(129,225,774)</u>
ASSETS, LIABILITIES AND MINORITY INTERESTS						
Total assets	-	-	457,555,514	443,725,229	474,181,123	214,161,471
Total liabilities	-	-	(112,465,206)	(171,954,541)	(232,928,375)	(73,240,417)
Minority interests	-	-	(4,260,493)	-	-	-
	<u>-</u>	<u>-</u>	<u>340,829,815</u>	<u>271,770,688</u>	<u>241,252,748</u>	<u>140,921,054</u>

Financial Summary

For the year ended 31 July 2003

Notes:

1. The Company was incorporated in the Cayman Islands on 13 January 2000. The combined results of the Group for the each of the two years ended 31 July 2000 have been prepared on the basis that the current group structure had been in existence throughout each of the two years ended 31 July 2000 and on the basis that the Group operated the website business – www.greaterchinaherbs.com throughout each of the two years ended 31 July 2000.

The combined results of the Group for the year ended 31 July 2000 presented above have been extracted from the Company's annual report dated 16 October 2001.

The combined results of the Group for the year ended 31 July 1999 presented above have been extracted from the Company's prospectus dated 30 March 2000.

2. The consolidated results for the period from 13 January 2000 (date of incorporation of the Company) to 31 July 2000 and the year ended 31 July 2001 and the assets and liabilities as at 31 July 2000 and 2001 of the Group have been extracted from the Company's published annual reports.
3. The consolidated results for the two years ended 31 July 2003 and the assets and liabilities as at 31 July 2002 and 2003 of the Group are set out on pages 26 and 27, respectively.



GreaterChina Technology Group Limited

大中華科技（集團）有限公司

33/F, 118 Connaught Road West, Hong Kong

香港干諾道西118號33樓

Telephone:(852) 2296 1288

電話:(852) 2296 1288

Facsimile:(852) 2549 9370

傳真:(852) 2549 9370

WWW.GCTG.COM