



GreaterChina
Technology Group Limited

大中華科技(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)



First Quarterly Report 2005

For the period
from 1st August, 2004
to 31st October, 2004

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.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), we hereby present the results of GreaterChina Technology Group Limited (the "Company") and its subsidiaries (together the "Group") for the three months ended 31 October 2004.

We remain fully committed to our goal of becoming a leader in producing Traditional Chinese Medicine ("TCM") health supplements, by using TCM-based ingredients, western biotechnology and maintaining high international standards by manufacturing under the USA Good Manufacturing Practice ("GMP").

Since November 2001, the Group has expanded its business by producing a range of health supplements with the usage of 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 utilizes 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 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. The 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.

On 4 November 2004, the Group had gained control of the board of directors of the pharmaceutical manufacturing plant in the People's Republic of China, in which the Group had 80% ownership interest. After diversification of the Group's business in the PRC, the business development plan of the Group is further enhanced by the production facilities, the existing product lines and the distribution network of this pharmaceutical manufacturing plant. Therefore, 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 procession 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.

As a result, we have devoted our efforts to strengthening our business foundation to ensure we stand a strong position to strive for market opportunities, broaden our revenue, increase the growth potential and thus enhance the shareholders’ worth.

FINANCIAL REVIEW

Segment Information

For the three months ended 31 October 2004 under review, the Group recorded a total revenue of HK\$2.9 million, of which HK\$2.0 million was contributed from the Group’s core business of sales of nutraceutical Chinese herbal products and related services and HK\$0.9 million from interest income and other sundries. For the comparative figures in the corresponding period in last year, the Group earned a total revenue of HK\$4.5 million, of which HK\$1.3 million was generated from the sale of nutraceutical Chinese herbal products, HK\$0.8 million arose from advisory and consultation services and HK\$2.4 million arose from interest income and other sundries.

For the period under review, the overall revenue of the Group dropped by 36.1% as compared to the revenue for the corresponding period last year. The main reason for the reduction is due to the decrease in intellectual properties income and interest income to HK\$0.4 million and HK\$0.06 million respectively, and no dividend income was received during the three months ended 31 October 2004. But for the corresponding period last year, the intellectual properties, interest and dividend income was HK\$1.1 million, HK\$0.6 million and HK\$0.6 million respectively.

However, owing to the stringent cost control policy, the Group’s general and administrative expenses were further reduced by 36.0% to HK\$4.3 million as compared to HK\$6.7 million (before loss on investment in securities of HK\$18.7 million) for the same period last year. Moreover, as no investment loss in securities was incurred, the loss attributable to shareholders was reduced significantly by 82.1% to HK\$4.4 million for the three months ended 31 October 2004 as compared to the loss attributable to shareholders of HK\$24.4 million for the three months ended 31 October 2003.

BUSINESS REVIEW

The Group is continually engaged in the research and development, manufacturing, marketing and distribution of traditional Chinese medicine, Chinese herbs, western medicine and healthcare products.

During the three months ended 31 October 2004, the Company has achieved the following objectives:

RESEARCH & PRODUCT DEVELOPMENT:

Conducting research and development at the Chinese Medicinal Fungal (CMF) Proteomics Laboratory;

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

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;

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

Collaboration with the Chinese University of Hong Kong and Guangdong Provincial People's Hospital for clinical service and research related to SARS; and

Performing biophysical assays on characteristics of the structural and functional relationship among the SARS viral peptides and antibodies by using the state-of-the-art medical equipment "Solid Phase Peptide Synthesiser".



OPERATION OF A PHARMACEUTICAL MANUFACTURING PLANT:

At the completion stage of business integration of a pharmaceutical manufacturing plant and formulation of distribution plans for western medicine in the PRC; and

Setting up the injection medicine manufacturing plant with Good Manufacturing Practice (GMP) quality and distribution of injection medicine in the PRC.

BRAND-BUILDING AND DISTRIBUTION OF HERBAL AND OTHER PRODUCTS:

Continue the brand-building of HERBSnSENSES™ via promotional activities such as distribution of newsletters and advertising via newspaper and magazines;

Continue the promotion of membership scheme to recruit more members;

Marketing and distribution of HERBSnSENSES™ Cordyceps via our websites www.herbsnsenses.com, www.senseshop.com and expanding our scope of sphere into more healthcare distribution channels;

Promoting HERBSnSENSES™ products by co-organising seminars with strategic alliances to educate the public the application and benefit of traditional Chinese medicine;

Obtaining licenses and health regulatory approval in the PRC; and

Official launching of new series of products – the HERBAL TEA SERIES and fruit bar.

FUTURE PLANS AND DEVELOPMENT

In the near future, 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 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;

Research and development in new product range such as western herbs and/or western medicine to enhance the Group's competitiveness;

Continue 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;

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:

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 formula in the PRC;

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.

BRAND-BUILDING AND DISTRIBUTION OF HERBAL AND OTHER PRODUCTS:

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

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

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

Exhibitions and promotions in Hong Kong, the PRC, Japan, Europe, Korea and the USA.

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.

Kelly Cheng

Chairman and Chief Executive Officer

Hong Kong, 13 December 2004

UNAUDITED CONSOLIDATED RESULTS

The Board of Directors (the "Board") of GreaterChina Technology Group Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 October 2004 together with the comparative unaudited consolidated results for the corresponding period in 2003 as follows:

	<i>Notes</i>	For the three months ended 31 October	
		2004 (Unaudited) <i>HK\$</i>	2003 (Unaudited) <i>HK\$</i>
Turnover	2	2,016,719	2,132,569
Cost of sales		<u>(838,290)</u>	<u>(883,544)</u>
Gross profit		1,178,429	1,249,025
Other revenue and gains	2	877,027	2,394,715
Administrative and other operating expenses		(4,287,733)	(6,703,369)
Loss on disposal of long term investments		-	<u>(18,674,037)</u>
Loss from operation	3	(2,232,277)	(21,733,666)
Finance costs		(75,378)	(341,539)
Share of loss of a jointly controlled entity		<u>(2,054,568)</u>	<u>(2,325,893)</u>
Loss before taxation		(4,362,223)	(24,401,098)
Taxation	4	-	-
Net loss attributable to shareholders	5	<u>(4,362,223)</u>	<u>(24,401,098)</u>
Loss per share	5		
Basic		<u>0.5 cents</u>	<u>3.0 cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

Notes:

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

2. TURNOVER, REVENUE AND GAINS

	For the three months ended 31 October	
	2004	2003
	(unaudited) HK\$	(unaudited) HK\$
Turnover		
Sale of goods	2,004,119	1,312,378
Rendering of services	12,600	820,191
	<u>2,016,719</u>	<u>2,132,569</u>
Other revenue		
Interest income	63,387	563,431
Income from the use of trademarks	416,667	1,041,667
Dividend income	-	616,438
	<u>480,054</u>	<u>2,221,536</u>
Gains		
Unrealised holding gain on investment in securities	40,347	173,179
Gain on disposal of fixed assets	356,626	-
	<u>396,973</u>	<u>173,179</u>
Other revenue and gains	<u>877,027</u>	<u>2,394,715</u>

3. LOSS FROM OPERATING ACTIVITIES

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

	For the three months ended 31 October	
	2004 (unaudited) HK\$	2003 (unaudited) HK\$
Depreciation	325,977	388,659
Amortisation of goodwill on acquisition of a jointly controlled entity	313,975	313,975
Research and development costs	10,000	666,160
	<u>146,040</u>	<u>480,000</u>
Minimum lease payments under operating leases in respect of land and buildings	146,040	480,000
Auditors' remuneration	-	-
Staff costs including directors' remuneration:		
Salaries and other allowances	1,357,526	1,758,823
Pension scheme contributions	22,798	29,663
	<u>1,380,324</u>	<u>1,788,486</u>
Realised loss on investment in securities	-	18,674,037

4. TAXATION

No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the three months period ended 31 October 2004 (2003: Nil).

There were no significant unprovided deferred taxation during the three months ended 31 October 2004.



5. LOSS PER SHARE

The calculation of basis losses per share are based on the net losses attributable to shareholders for the three months ended 31 October 2004 of HK\$4,362,223 (2003: HK\$24,401,098) and the number of shares of 813,696,000 (2003: 813,696,000) in issue during the period.

As the exercise price of the outstanding share options was higher than the average market price of the Company's shares during the three months ended 31 October 2004, they exerted no dilution effect on the basic loss per share for the three months ended 31 October 2004. Diluted loss per share amount for the three months ended 31 October 2003 has not been disclosed as the share options outstanding during that period had an anti-dilutive effect on the basic loss per share for that period.

6. COMPARATIVE AMOUNTS

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

MOVEMENT OF RESERVES

There have been no movements in the reserves of the Group during the three months ended 31 October 2004, except for the net loss recognized of HK\$4,362,223 (2003: net loss recognized of HK\$24,401,098 and decrease in revaluation deficit on investment in securities of HK\$28,061,000).

DIVIDEND

The directors do not recommend the payment of any dividend for the three months ended 31 October 2004 (2003: nil).

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 October 2004, 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 and its associated corporations are separately disclosed under the section "Share Option Scheme" of this report.



In addition to the above, a director has 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' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed in the share option scheme under the section "Share Option Scheme" of this report, 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 October 2004, 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.

SHARE OPTIONS SCHEME

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.



On 8 April 2002, the Company passed scheme 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.

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 period:

	Date of grant of share options	Exercise period of share options	Exercise price HK\$	Number of share options at 1 August 2004 and 31 October 2004	
Directors					
Ms. Cheng Kit Yin, Kelly	19.12.2000		note (i)	0.218	16,000,000
	4.6.2002	4.6.2002-18.4.2012		0.234	51,808,000
Mr. Kam Shing	19.4.2002	19.4.2002-18.4.2012		0.234	1,000,000
Dr. Ngai Sai Ming	19.4.2002	19.4.2002-18.4.2012		0.234	5,000,000
Dr. Lau Lap Ping	19.4.2002	19.4.2002-18.4.2012		0.234	1,000,000
					<u>74,808,000</u>
Other employees					
In aggregate	19.12.2000		note (i)	0.218	1,500,000
	19.4.2002	19.4.2002-18.4.2012		0.234	400,000
					<u>1,900,000</u>
					<u><u>76,708,000</u></u>

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 76,708,000 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 76,708,000 additional ordinary shares of the Company and additional share capital of HK\$767,080 and share premium of HK\$16,902,592 (before issue expenses).

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 period.

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. The audit committee has reviewed the draft of this report and has provided advice and comments thereon.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

For the three months ended 31 October 2004, 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.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the three months period ended 31 October 2004.

By order of the Board of
GreaterChina Technology Group Limited
Kelly Cheng
Chairman and Chief Executive Officer

Executive Director:

Ms. Cheng Kit Yin, Kelly

Non-executive Directors:

Mr. Kam Shing

Dr. Ngai Sai Ming

Independent non-executive Directors:

Dr. Lau Lap Ping

Mr. Man Kong Yui

Hong Kong, 13 December 2004