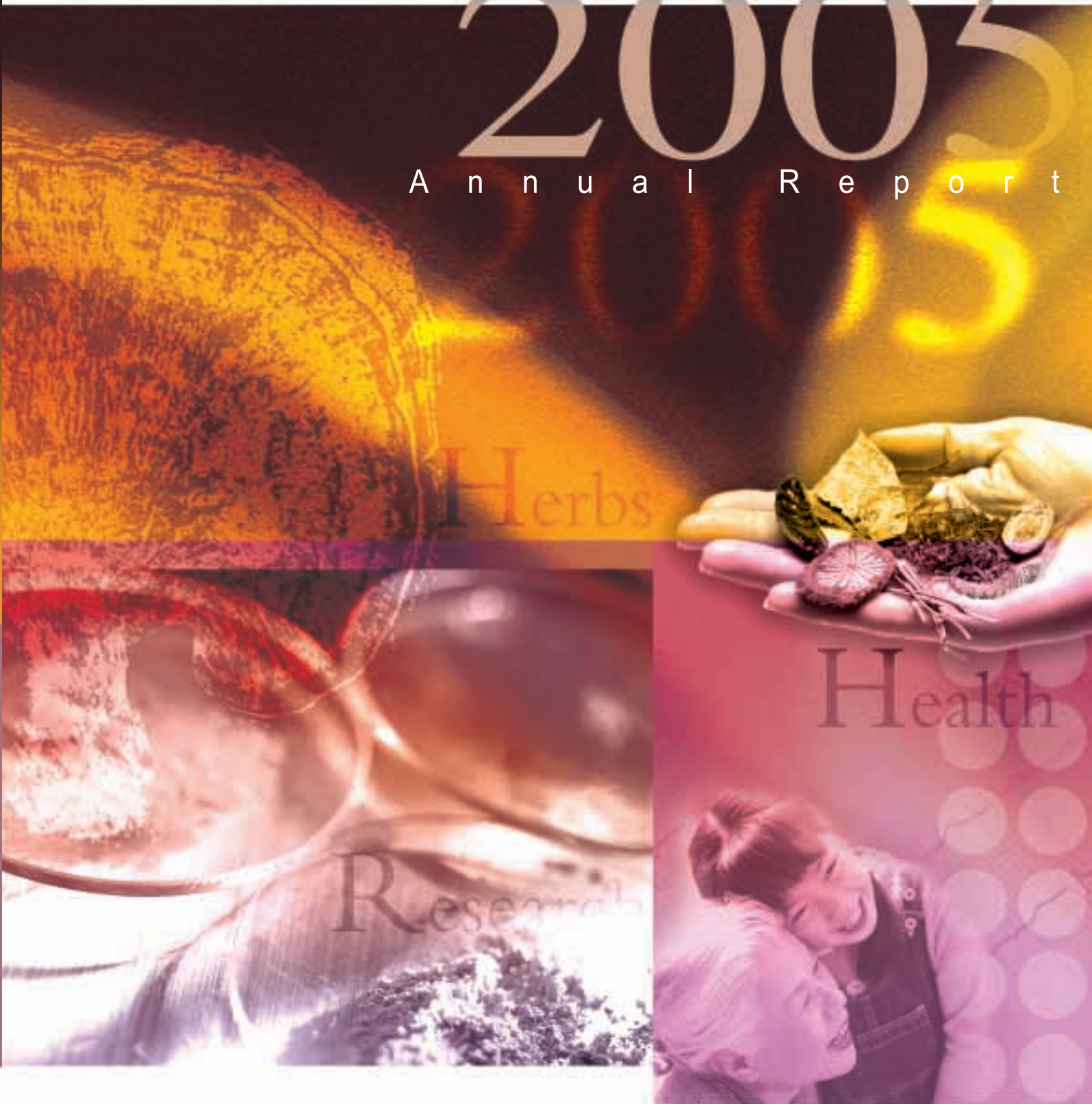


2005

A n n u a l R e p o r t



Herbs

Health

Research



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.

2005

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CORPORATE PROFILE

DIRECTORS

Executive Directors

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

Non-executive Directors

Dr. Ngai Sai Ming, Ice

Independent

Non-executive Directors

Dr. Lau Lap Ping
Mr. Man Kong Yui
Mr. Yeung Chi Hung

AUTHORIZED REPRESENTATIVES

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

AUDIT COMMITTEE MEMBERS

Dr. Lau Lap Ping
Mr. Man Kong Yui
Mr. Yeung Chi Hung

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 (Hong Kong) Limited
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
British West Indies

PRINCIPAL PLACE OF BUSINESS

Suite 3408, Two Exchange Square
Central
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

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

Hong Kong

Secretaries Limited
28/F, 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 results of GreaterChina Technology Group Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 July 2005.

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 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.

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

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 tumor, pancreatic tumor, liver tumor and other genetic diseases in which they are unique in this part of Asia Pacific Region.

CHAIRMAN'S STATEMENT

On 4 November 2004, the Group gained control of the board of directors of the pharmaceutical manufacturing plant in the People's Republic of China (the "PRC"), in which the Group already had an 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 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.

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 year ended 31 July 2005, the Group recorded a total revenue of HK\$10.1 million, of which HK\$3.1 million was contributed from the Group's core business of sales of nutraceutical Chinese herbal products and related services, HK\$4.6 million from sales of western medicine in the PRC, HK\$0.6 million from advisory and consultation services and HK\$1.8 million from interest income and other sundries. For the comparative figures in the previous financial year, the Group earned a total revenue of HK\$13.3 million, of which HK\$3.1 million was generated from the Group's core business of sales of nutraceutical Chinese herbal products and related services, HK\$1.1 million arose from advisory and consultation services and HK\$9.1 million arose from interest income and other sundries.



CHAIRMAN'S STATEMENT



Although total revenue dropped as a result of the reduction of other revenue such as income from the use of trademarks and interest income, the overall performance of the Group had improved. It is because after diversification of the Group's business in the PRC, revenue of HK\$4.6 million was derived from sales of western medicine in the PRC during the year. Despite the fact that the expenses of the pharmaceutical company in the PRC amounting HK\$8.3 million were included current year, there was only a slight increase of 3% in total administrative and other operating expenses due to the continue adoption of tight cost control policy. The administrative and other operating expenses in the Hong Kong segment was reduced to HK\$17.2 million as compared to HK\$24.3 million last year. Besides, no investment loss was incurred during the year.

The Group incurred net losses of HK\$19.6 million for the year ended 31 July 2005, as compared to net losses of HK\$51.4 million last year, and net losses of HK\$6.5 million in current year was attributable from the PRC sector.

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, there was no significant investment held by the Group nor material acquisitions or disposals of subsidiaries and affiliated companies during the year.

The current ratio of the Group was 1.8 as at the year end compared to 1.6 as at 31 July, 2004. The gearing ratio, defined as the ratio of total borrowings to total assets, was 26.5% as compared to 34.2% as at 31 July, 2004. The decrease is mainly due to the repayment of bank borrowings by the internal fund of the Group. The Group's borrowings mainly comprise a long term loan, a short term loan and overdrafts which amounted to approximately HK\$44.0 million (2004: HK\$65.5 million) as at the year end. The overdrafts and short term loan are

CHAIRMAN'S STATEMENT

wholly secured by bank deposits and part of the land use rights of the Group. The Group therefore has effectively no outstanding debts or exposure to its bankers given that the Group's cash deposits held at its banks and the value of the land use rights exceed the amount of bank borrowings. In view of the level of bank deposits and credit facilities granted 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 year under review, there was no significant currency exposure of the Group. Moreover, as interest charges on the Group's borrowings were based on the interest rates in respect of the Group's deposits, the Group had no significant interest exposure.

As at the year end, the Group has operating lease commitments for various offices of the Group amounting to approximately HK\$2.3 million. 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 76 full time employees as at 31 July 2005 (2004: 11). 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\$7,093,029 (2004: HK\$6,879,775).

Overall, the net asset value of the Group was approximately HK\$102.1 million equivalent to approximately HK\$0.13 per share.



CHAIRMAN'S STATEMENT

BUSINESS REVIEW

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

During the year ended 31 July 2005, the Company had achieved the following objectives:

Research & Product Development:

Conduct 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, Guangdong Provincial People's Hospital for clinical service and research related to SARS; and

CHAIRMAN'S STATEMENT

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:

Gained control of a pharmaceutical manufacturing plant in the PRC and thus completed the business integration on the entire business; and

Formulated distribution plans for western medicine in the PRC.

Brand-building and Distribution of Herbal Products:

Continued the brand-building of HERBSnSENSES™ via promotional activities such as advertising, distribution of newsletters and promotion of membership scheme;

Continued the promotion of membership scheme to strengthen relations with existing members and to recruit new 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 organising seminars in Hong Kong as well as major cities in the PRC to educate the public the application and benefit of traditional Chinese medicine;

Participating in various exhibitions of western medicine and nutraceutical products in Hong Kong and the PRC to promote the brand-awareness of the Group's products;



CHAIRMAN'S STATEMENT

Obtaining licenses and health regulatory approval in the PRC;

Opening of a concept counter at prestigious department store; and

Official launching of a new product, Perilla Seed Oil in Hong Kong.

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 with a target 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;

CHAIRMAN'S STATEMENT

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 formulae in the PRC;

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

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 Products:

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



CHAIRMAN'S STATEMENT

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

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

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

Opening of more concept counters at prestigious department stores or reputable pharmacies.

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, 26 October 2005

DIRECTORS, SENIOR MANAGEMENT AND STAFF

DIRECTORS

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

Executive Directors

Ms. Cheng Kit Yin, Kelly, aged 53, 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 26 years' experience in banking, auditing and finance. She is 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").

Miss Kuo Kwan, Belinda, aged 35, is the Chief Financial Officer 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 10 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

Non-executive Directors

Dr. Ngai Sai Ming, Ice, aged 40, 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 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.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Mr. Man Kong Yui, age 45, 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 an independent non-executive director of Get Nice 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.

Mr. Yeung Chi Hung, aged 44, is a fellow of The Hong Kong Institute of Certified Public Accountants and a member of The Institute of Chartered Accountants in England and Wales. Mr. Yeung has 12 years of experience in accounting and auditing. Mr. Yeung is a certified public accountant (practicing) in Hong Kong, the managing director of Yeung, Chan & Associates CPA Limited and an independent non-executive director of ThinSoft (Holdings) Inc, a listed company in Hong Kong. He joined the Group in January 2005.


SENIOR MANAGEMENT

Research and Development

Dr. Liu Chi, aged 40, joined the Group in September 2004. She is the general manager of the pharmaceutical company of the Group in the PRC and is in charge of Research & Development development. She has over ten years of experience in the research and development of Traditional Chinese Medicine (TCM). Since 2000, she was engaged in the studies of immunomodulatory and anti-tumor functions of polysaccharides from various TCM herbs. She held a Bachelor of Chemical Engineering degree from South China University of Technology, Master of Philosophy in Chemistry from the Auckland University, New Zealand, PHD in Biochemistry from the Chinese University of Hong Kong.



DIRECTORS, SENIOR MANAGEMENT AND STAFF



Dr. Zou Ling, aged 45, 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.

ADVISORY BOARD

Medical and Clinical Advisers

Dr. Lin Shu Guang, aged 54, 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 America 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 48, 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.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Dr. Zeng Guo Hong, aged 51, 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 47, 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.



REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31 July 2005.

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 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 76.

The directors do not recommend the payment of any dividend for the year ended 31 July 2005.

FIXED ASSETS

Movements in the fixed assets of the Company and the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of changes in the Company's share capital and share options during the year, together with the reasons thereof, are set out in notes 29 and 30 to the financial statements.

REPORT OF THE DIRECTORS

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.

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 31 to the financial statements and in the consolidated statement of changes in equity on page 33 respectively.

DISTRIBUTABLE RESERVES

At 31 July 2005, the Company's reserves available for distribution to shareholders comprising share premium account less accumulated losses, amounted to HK\$128,765,941.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 54% of the sales for the year and sales to the largest customer included therein accounted for approximately 23%.

Purchases from the Group's five largest suppliers accounted for approximately 30% of the total purchases for the year and purchases from the largest supplier included therein accounted for approximately 12%.



REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS *(continued)*

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

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

Executive directors:

Ms. Cheng Kit Yin, Kelly

Ms. Kuo Kwan *(appointed on 24 January 2005)*

Non-executive directors:

Dr. Ngai Sai Ming

Mr. Kam Shing *(resigned on 30 December 2004)*

Independent non-executive directors:

Dr. Lau Lap Ping

Mr. Man Kong Yui

Mr. Yeung Chi Hung *(appointed on 24 January 2005)*

Mr. Ha Shu Tong *(resigned on 5 October 2004)*

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

REPORT OF THE DIRECTORS

DIRECTORS *(continued)*

In accordance with Articles 108(A) and 108(B), Dr. Lau Lap Ping and Dr. Ngai Sai Ming will retire as directors at the forthcoming Annual General Meeting ("AGM"). Dr. Lau, being eligible, will offer herself for re-election as director, while Dr. Ngai will not offer himself for re-election.

In accordance with Article 112, Mr. Yeung Chi Hung and Ms. Kuo Kwan will retire as directors by rotation and, being eligible, offer themselves for re-election as directors at the forthcoming AGM.

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 13 to 17 of the annual 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 AGM 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.



REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS 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 being an executive director of that company until her resignation on 7 January 2005, Dr. Lau Lap Ping, an independent non-executive director of China Rich and Mr. Kam Shing, an executive director of China Rich, are set out in notes 22 and 33 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' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 July 2005, 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 5.46 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 directly and beneficially owned	Percentage of the Company's issued share capital
Ms. Cheng Kit Yin, Kelly	<u>44,046,020</u>	<u>5.4</u>

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

The interests of the directors in the share options of the Company are separately disclosed in note 30 to the financial statements.

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 5.46 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 30 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.



REPORT OF THE DIRECTORS

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

At 31 July 2005, 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 AND RELATED PARTY TRANSACTIONS

Details of the discloseable connected transactions of the Group are set out in note 33 to the financial statements.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE AND CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company complied with the board practices and procedures as set out in Rules 5.34 and 5.45 (where applicable) of the GEM Listing Rules throughout the year.

As rules 5.34 to 5.45 of the GEM Listing Rules incorporated amendments in relation to the Code on Corporate Governance Practices (the "CGP"), which became effective on 1 January 2005 subject to the transitional arrangements, the Company has been taking action to follow the code provisions set out in the CGP Code.

The Company has adopted the rules set out in Rules 5.48 to 5.67 (where applicable) of the GEM Listing Rules as the code for dealing in securities of the Company by the Directors (the "Code"). All Directors have complied with the required standard as set out in the Code.

AUDIT COMMITTEE

The Company's audit committee was formed on 17 March 2000 with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's internal control procedures, 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, and the appointment of Mr. Yeung Chi Hung on 24 January 2005, the audit committee currently comprises three independent non-executive directors, namely Dr. Lau Lap Ping, Mr. Man Kong Yui and Mr. Yeung Chi Hung.

During the year, the audit committee met 5 times for reviewing the Group's quarterly, half-year and annual financial results and other matters.



REPORT OF THE DIRECTORS

REMUNERATION COMMITTEE

The Company established a remuneration committee, comprising of independent non-executive directors of the Company, with written terms of reference. The remuneration committee comprised Dr. Lau Lap Ping (chairman of the remuneration committee), Mr. Man Kong Yui and Mr. Yeung Chi Hung. The written terms of reference include the specific duties of making recommendations to the board of directors of the Company on the Company's policy and structure for all remuneration of directors and senior management, having the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management and making recommendations to the board of directors of the remuneration of non-executive directors.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

For the year ended 31 July 2005, 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.

AUDITORS

The financial statements have been audited by Horwath Hong Kong CPA Limited who retire and, being eligible, offer themselves for re-appointment.

By Order of the Board

Cheng Kit Yin, Kelly
Director

Hong Kong, 26 October 2005

REPORT OF THE AUDITORS



Horwath Hong Kong CPA Limited

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TO THE SHAREHOLDERS OF GREATERCHINA TECHNOLOGY GROUP LIMITED

(大中華科技(集團)有限公司)

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 29 to 76 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.



REPORT OF THE AUDITORS

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes 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 circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed 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. 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.

OPINION

In our opinion 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 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HORWATH HONG KONG CPA LIMITED

Certified Public Accountants

Shiu Hong Ng

Practising Certificate number P03752

26 October 2005

CONSOLIDATED INCOME STATEMENT

For the year ended 31 July 2005

	Note	2005 HK\$	2004 HK\$
Turnover	4	8,323,928	4,180,437
Cost of sales		<u>(5,031,224)</u>	<u>(2,007,280)</u>
Gross profit		3,292,704	2,173,157
Other revenue and gains	4	1,776,589	9,107,721
Administrative and other operating expenses		(25,478,496)	(24,729,956)
Loss on disposal of long term investments		-	(23,491,178)
Prepayments written off		-	<u>(4,598,750)</u>
Loss from operating activities	5	<u>(20,409,203)</u>	(41,539,006)
Finance costs	6	(390,661)	(962,510)
Share of loss of a jointly-controlled entity		<u>(284,616)</u>	<u>(8,852,002)</u>
Loss before taxation		<u>(21,084,480)</u>	(51,353,518)
Taxation	9	-	-
Loss after taxation		<u>(21,084,480)</u>	(51,353,518)
Minority interest		<u>1,498,309</u>	-
Net loss from ordinary activities attributable to shareholders	10	<u><u>(19,586,171)</u></u>	<u><u>(51,353,518)</u></u>
Loss per share	11		
Basic		<u><u>2.4 cents</u></u>	<u><u>6.3 cents</u></u>

The notes on pages 36 to 76 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 July 2005

	Note	2005 HK\$	2004 HK\$
ASSETS AND LIABILITIES			
Non-current assets			
Fixed assets	12	61,867,370	3,387,641
Land use rights	13	26,374,275	-
Intangible assets	14	3,868,665	-
Interest in a jointly-controlled entity	17	-	72,693,423
Goodwill	18	21,873,603	-
Long term investments	19	1,763,788	194,200
Deposit paid	22	4,000,000	-
		<u>119,747,701</u>	<u>76,275,264</u>
Current assets			
Inventories	20	7,437,149	6,959,861
Trade receivables	21	1,807,445	785,199
Prepayments, deposits and other receivables	22	19,142,773	26,766,271
Short term investments	23	350,317	22,881
Pledged deposits	26	15,910,057	80,651,247
Bank balances and cash		1,899,332	391,439
		46,547,073	115,576,898
Current liabilities			
Trade payables	24	1,005,519	-
Due to a related company	25	1,189,350	456,845
Other payables and accruals		5,803,350	4,866,859
Receipts in advance		659,890	-
Other tax payables		489,022	-
Interest-bearing bank borrowings	26	17,416,726	65,520,922
		<u>26,563,857</u>	<u>70,844,626</u>
Net current assets		<u>19,983,216</u>	<u>44,732,272</u>
Total assets less current liabilities		139,730,917	121,007,536
Non-current liabilities			
Other loans	27	26,606,129	-
Minority interest		<u>10,997,898</u>	<u>-</u>
Net assets		<u>102,126,890</u>	<u>121,007,536</u>

CONSOLIDATED BALANCE SHEET*At 31 July 2005*

	<i>Note</i>	2005 HK\$	2004 HK\$
CAPITAL AND RESERVES			
Share capital	29	8,136,960	8,136,960
Reserves		<u>93,989,930</u>	<u>112,870,576</u>
Shareholders' funds		<u>102,126,890</u>	<u>121,007,536</u>

Cheng Kit Yin, Kelly
Director

Kuo Kwan
Director

The notes on pages 36 to 76 form part of these financial statements.

BALANCE SHEET

At 31 July 2005

	Note	2005 HK\$	2004 HK\$
ASSETS AND LIABILITIES			
Non-current assets			
Fixed assets	12	124,280	136,677
Interests in subsidiaries	16	122,741,868	124,824,784
Long term investments	19	1,560,000	-
		<u>124,426,148</u>	<u>124,961,461</u>
Current assets			
Prepayments, deposits and other receivables	22	2,379,246	1,672,318
Short term investments	23	350,317	22,881
Pledged deposits	26	12,464,422	77,237,820
Bank balances		188,335	39,162
		<u>15,382,320</u>	<u>78,972,181</u>
Current liabilities			
Other payables and accruals		1,716,217	2,002,495
Due to a related company	25	1,189,350	456,845
		<u>2,905,567</u>	<u>2,459,340</u>
Net current assets		<u>12,476,753</u>	<u>76,512,841</u>
Net assets		<u>136,902,901</u>	<u>201,474,302</u>
CAPITAL AND RESERVES			
Share capital	29	8,136,960	8,136,960
Reserves	31	128,765,941	193,337,342
Shareholders' funds		<u>136,902,901</u>	<u>201,474,302</u>

Cheng Kit Yin, Kelly
Director

Kuo Kwan
Director

The notes on pages 36 to 76 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 July 2005

	Issued share capital HK\$	Share premium account HK\$	Long term investment revaluation reserves HK\$	Translation reserve HK\$	Accumulated losses HK\$	Total HK\$
Balance at 31 July 2003	8,136,960	394,291,209	(31,440,000)	-	(230,067,115)	140,921,054
Realised on disposal	-	-	31,440,000	-	-	31,440,000
Net loss for the year	-	-	-	-	(51,353,518)	(51,353,518)
Balance at 31 July 2004	8,136,960	394,291,209*	-*	-*	(281,420,633)*	121,007,536
Net loss for the year	-	-	-	-	(19,586,171)	(19,586,171)
Exchange differences arising on translation of overseas operations	-	-	-	705,525	-	705,525
Balance at 31 July 2005	<u>8,136,960</u>	<u>394,291,209*</u>	<u>-*</u>	<u>705,525*</u>	<u>(301,006,804)*</u>	<u>102,126,890</u>
Reserves retained by:						
Company and subsidiaries	8,136,960	394,291,209	-	705,525	(301,006,804)	102,126,890
Jointly-controlled entity	-	-	-	-	-	-
31 July 2005	<u>8,136,960</u>	<u>394,291,209</u>	<u>-</u>	<u>705,525</u>	<u>(301,006,804)</u>	<u>102,126,890</u>
Company and subsidiaries	8,136,960	394,291,209	-	-	(267,492,963)	134,935,206
Jointly-controlled entity	-	-	-	-	(13,927,670)	(13,927,670)
31 July 2004	<u>8,136,960</u>	<u>394,291,209</u>	<u>-</u>	<u>-</u>	<u>(281,420,633)</u>	<u>121,007,536</u>

* These reserves made up the consolidated reserves of HK\$93,989,930 (2004: HK\$112,870,576) in the consolidated balance sheet.

The notes on pages 36 to 76 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 July 2005

	2005 HK\$	2004 HK\$
Cash flows from operating activities		
Loss before taxation	(21,084,480)	(51,353,518)
Adjustment for:		
Finance costs	390,661	962,510
Share of loss of a jointly-controlled entity	284,616	8,852,002
Interest income	(576,661)	(1,167,368)
Dividend income	(10,036)	(748,438)
Amortisation of intangible assets	513,423	-
Amortisation of goodwill on acquisition of a jointly-controlled entity	313,975	1,255,901
Amortisation of goodwill	941,925	-
Amortisation of land use rights	445,728	-
Depreciation	5,463,154	1,437,536
Gain on disposal of subsidiaries	-	(1,055,333)
Provision for doubtful debts	464,696	-
Loss on disposal of long term investments	-	23,491,178
Gain on disposal of fixed assets	(358,837)	-
Unrealised holding (gain)/loss on short term investments	(25,691)	3,570
Prepayments written off	-	4,598,750
Provision for slow moving inventories	96,938	-
Operating loss before working capital changes	(13,140,589)	(13,723,210)
Decrease/(increase) in inventories	831,442	(4,398,235)
Decrease in trade receivables	192,243	1,158,401
Decrease/(increase) in prepayments, deposits and other receivables	3,702,275	(6,000,996)
(Increase)/decrease in short term investments	(301,745)	11,601,601
Decrease in trade payables	(201,111)	-
Decrease in trust receipt loans	-	(4,230,000)
Decrease in other payables and accruals	(2,103,829)	(4,399,556)
Decrease in other tax payables	(54,157)	-
Increase in amount due to a related company	732,505	456,845
Increase in receipts in advance	659,890	-
Effect of foreign exchange rate changes	(47,312)	-
Cash used in operations	(9,730,388)	(19,535,150)
Interest received	753,946	1,684,665
Dividend received	10,036	748,438
Interest paid	(390,661)	(962,510)
Net cash used in operating activities	(9,357,067)	(18,064,557)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 July 2005

	<i>Note</i>	2005 HK\$	2004 HK\$
Cash flows from investing activities			
Proceeds from disposal of fixed assets		573,369	-
Proceeds from disposal of subsidiaries		-	270,000
Acquisition of long term investments		(1,569,588)	(194,200)
Proceeds from disposal of long term investments		-	47,784,822
Purchase of fixed assets		(87,755)	(1,106,159)
Purchase of intangible assets		(66,038)	-
Release of pledged deposits		-	23,300,000
Cash inflow on a jointly-controlled entity changed to a subsidiary	32	182,691	-
Net cash (used in)/generated from investing activities		(967,321)	70,054,463
Cash flows from financing activities			
Repayment of bank loans		(56,636,646)	(4,657,447)
New bank loans		-	33,543,581
Net cash (used in)/generated from financing activities		(56,636,646)	28,886,134
Net (decrease)/increase in cash and cash equivalents		(66,961,034)	80,876,040
Cash and cash equivalents at beginning of year		72,158,410	(8,717,630)
Effect of foreign exchange rate changes		(10,849)	-
Cash and cash equivalents at end of year		5,186,527	72,158,410
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		1,899,332	391,439
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities		15,910,057	80,651,247
Bank overdrafts		(12,622,862)	(8,884,276)
		5,186,527	72,158,410

The notes on pages 36 to 76 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

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 are 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
- manufacture and selling of western medicine

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") (collectively "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the preparation of these financial statements.

The Group has commenced considering the potential impact of the new HKFRSs and has so far concluded that the adoption of HKFRS 2 "Share-based payment", HKFRS 3 "Business combinations", HKAS 1 "Presentation of financial statements", HKAS 17 "Leases" HKAS 32 "Financial instruments: Disclosure and presentation", HKAS 36 "Impairment of assets", HKAS 38 "Intangible assets", and HKAS 39 "Financial instruments: Recognition and measurement" will have impacts on the financial statements of the Group.

The Group will continue with the assessment of the impact of the other new HKFRSs and other significant changes may be identified as a result.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

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

(b) 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.

(c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 July 2005. 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.

(d) 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.

(e) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

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

(e) Joint venture companies *(continued)*

A joint venture company is treated as:

- (i) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (ii) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (iii) 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
- (iv) 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.

(f) 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.

(g) Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

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

(g) Goodwill *(continued)*

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 associates and 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.

On disposal of subsidiaries, associates or 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.

(h) 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:

Buildings	5%
Leasehold improvements	Over the lease terms
Machinery and office equipment	10% – 33 ¹ / ₃ %
Motor vehicles	20% – 25%
Furniture and fixtures	33 ¹ / ₃ %

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

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

(h) Fixed assets and depreciation *(continued)*

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.

(i) Construction in progress

Construction in progress represents buildings, plant and machinery and other fixed assets under construction and is stated at cost. Cost comprises direct costs of construction as well as interest charges during the period of construction, installation and testing and certain exchange differences on any related borrowed funds. Construction in progress is transferred to property, plant and equipment when it is completed and ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the appropriate PRC authorities.

(j) Land use rights

Land use rights are stated at cost less accumulated amortisation and any impairment in value. Land use rights are amortised on a straight-line basis over the period of the land use rights.

The carrying value of land use rights is reviewed for impairment at each balance sheet date.

(k) Intangible assets

(i) *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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

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

(k) Intangible assets *(continued)*

(ii) *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.

(l) 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.

(m) Long term investments

Long term investments are non-trading unlisted investments intended to be held on a long term basis and are stated at cost less impairment in value as deemed necessary by the directors.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

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

(n) 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.

(o) 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

For the year ended 31 July 2005

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

(p) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the standard costing method 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. During the year, the Group changed its costing method for finished goods from the weighted average cost method to standard cost method. The change has had no material effect on the amount reported in previous year's financial statements.

(q) 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.

(r) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfil the above criteria.

(s) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred taxation is provided for on temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

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

(t) 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.

(u) 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.

(v) Translation of foreign currencies

Foreign currency transactions are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are dealt with in the profit and loss account.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and are recognised as income or as expenses in the period in which an operation is disposed of.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

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

(w) 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.

(x) 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:

- (i) portal development and information technology advisory and consultation income, when the services are provided;
- (ii) 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;
- (iii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (iv) dividend income, when the shareholders' right to receive payment has been established; and
- (v) income from the use of trademarks, in accordance with the terms of the agreement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

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

(y) Employee benefits

(i) *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.

(ii) *Retirement benefits scheme*

The Group, other than the subsidiary company in the People's Republic of China ("PRC") 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.

The PRC subsidiary company's contributions to a local municipal government retirement scheme in the PRC are expensed as incurred while the local municipal government in the PRC undertakes to assume the retirement benefit obligations of all existing and future retirees of the qualified staff in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

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

(y) Employee benefits *(continued)*

(iii) 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.

3. 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 western medicine products segment engages in the manufacture and selling of western medicine products.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

3. 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:

2005

	Herbal products HK\$	Advisory services HK\$	Western medicine products HK\$	Consolidated HK\$
Segment revenue				
Turnover	<u>3,123,517</u>	<u>561,284</u>	<u>4,639,127</u>	<u>8,323,928</u>
Segment results	<u>(4,469,765)</u>	<u>(671,380)</u>	<u>(6,527,076)</u>	(11,668,221)
Unallocated corporate expenses				(8,740,982)
Prepayments written off				<u>-</u>
Loss from operating activities				(20,409,203)
Finance costs				(390,661)
Share of loss of a jointly- controlled entity				<u>(284,616)</u>
Loss before taxation				(21,084,480)
Taxation				-
Minority interest				<u>1,498,309</u>
Net loss from ordinary activities attributable to shareholders				<u>(19,586,171)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

3. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

2005

	Herbal products HK\$	Advisory services HK\$	Western medicine products HK\$	Consolidated HK\$
Segment assets	<u>9,011,111</u>	<u>999,093</u>	<u>91,757,387</u>	<u>101,767,591</u>
Unallocated assets				<u>64,527,183</u>
Total assets				<u>166,294,774</u>
Segment liabilities	<u>14,241,718</u>	<u>318,663</u>	<u>45,972,743</u>	<u>60,533,124</u>
Unallocated liabilities				<u>3,634,760</u>
Total liabilities				<u>64,167,884</u>
Other segment information:				
Additions to fixed assets	-	-	1,962	1,962
Additions to intangible assets	-	-	66,038	66,038
Depreciation	653,868	-	4,273,853	4,927,721
Amortisation of intangible assets	-	-	<u>513,423</u>	<u>513,423</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

3. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

2004

	Herbal products HK\$	Advisory services HK\$	Western medicine products HK\$	Consolidated HK\$
Segment revenue				
Turnover	<u>3,085,760</u>	<u>1,094,677</u>	<u>-</u>	<u>4,180,437</u>
Segment results	<u>(6,373,957)</u>	<u>(1,621,089)</u>	<u>-</u>	<u>(7,995,046)</u>
Unallocated corporate expenses				(28,945,210)
Prepayments written off				<u>(4,598,750)</u>
Loss from operating activities				(41,539,006)
Finance costs				(962,510)
Share of loss of a jointly- controlled entity				<u>(8,852,002)</u>
Loss before taxation				(51,353,518)
Taxation				<u>-</u>
Net loss from ordinary activities attributable to shareholders				<u>(51,353,518)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

3. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

2004

	Herbal products HK\$	Advisory services HK\$	Western medicine products HK\$	Consolidated HK\$
Segment assets	<u>10,457,901</u>	<u>2,949,254</u>	<u>-</u>	13,407,155
Unallocated assets				<u>178,445,007</u>
Total assets				<u>191,852,162</u>
Segment liabilities	<u>10,584,688</u>	<u>406,532</u>	<u>-</u>	10,991,220
Unallocated liabilities				<u>59,853,406</u>
Total liabilities				<u>70,844,626</u>
Other segment information:				
Additions to fixed assets	-	-	-	-
Additions to intangible assets	-	-	-	-
Depreciation	671,647	-	-	671,647
Amortisation of intangible assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

3. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following table provides an analysis of the Group's turnover, assets and additions to fixed assets by geographical market:

2005

	Hong Kong HK\$	The People's Republic of China HK\$	Consolidated HK\$
Segment revenue			
Turnover	3,684,801	4,639,127	8,323,928
Segment assets	74,537,387	91,757,387	166,294,774
Additions to fixed assets	<u>85,793</u>	<u>1,962</u>	<u>87,755</u>

2004

	Hong Kong HK\$	The People's Republic of China HK\$	Consolidated HK\$
Segment revenue			
Turnover	4,180,437	–	4,180,437
Segment assets	191,852,162	–	191,852,162
Additions to fixed assets	<u>1,106,159</u>	<u>–</u>	<u>1,106,159</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

4. TURNOVER, OTHER REVENUE AND GAINS

	2005 HK\$	2004 HK\$
Turnover		
Sales	7,762,644	3,085,760
Rendering of services	561,284	1,094,677
	<u>8,323,928</u>	<u>4,180,437</u>
Other revenue		
Interest income	576,661	1,167,368
Income from the use of trademark	694,445	2,708,333
Dividend income	10,036	748,438
Gain on disposal of short term investments	109,019	3,024,597
Gain on disposal of fixed assets	358,837	-
Unrealised holding gain on short term investments	25,691	-
Others	1,900	403,652
	<u>1,776,589</u>	<u>8,052,388</u>
Gains		
Gain on disposal of subsidiaries	-	1,055,333
	<u>1,776,589</u>	<u>9,107,721</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

5. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	2005 HK\$	2004 HK\$
Depreciation	5,463,154	1,437,536
Amortisation of intangible assets	513,423	-
Amortisation of goodwill on acquisition of a jointly-controlled entity	313,975	1,255,901
Amortisation of goodwill	941,925	-
Amortisation of land use rights	445,728	-
Research and development costs	258,963	2,650,606
Provision for doubtful debts	<u>464,696</u>	<u>-</u>
Minimum lease payments under operating leases in respect of land and buildings	910,134	1,316,042
Auditors' remuneration	348,000	500,000
Staff costs including directors' remuneration:		
Salaries and other allowances	<u>6,967,878</u>	<u>6,740,185</u>
Pension scheme contributions	<u>125,151</u>	<u>139,590</u>
	<u>7,093,029</u>	<u>6,879,775</u>
Unrealised holding loss on short term investments	<u>-</u>	<u>3,570</u>

6. FINANCE COSTS

	The Group	
	2005 HK\$	2004 HK\$
Interest on bank loans and overdrafts wholly repayable within five years	<u>390,661</u>	<u>962,510</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

7. DIRECTORS' REMUNERATION

	The Group	
	2005 HK\$	2004 HK\$
Executive directors:		
Salaries and other allowances	3,180,000	2,880,000
Pension scheme contributions	18,000	12,000
	<u>3,198,000</u>	<u>2,892,000</u>
Non-executive directors:		
Fees	136,000	192,000
Independent non-executive directors:		
Fees	259,097	224,000
	<u>3,593,097</u>	<u>3,308,000</u>

The two executive directors received emoluments of HK\$2,892,000 (2004: HK\$2,892,000) and HK\$306,000 (2004: HK\$Nil) respectively for the year ended 31 July 2005.

The non-executive directors received fees of HK\$96,000 (2004: HK\$96,000) and HK\$40,000 (2004: HK\$96,000) respectively for the year ended 31 July 2005.

The independent non-executive directors received fees of HK\$96,000 (2004: HK\$96,000), HK\$96,000 (2004: HK\$32,000), HK\$50,065 (2004: HK\$Nil) and HK\$17,032 (2004: HK\$96,000) respectively for the year ended 31 July 2005.

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

For the year ended 31 July 2005

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: one) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining three (2004: four) non-directors, highest paid employees for the year are as follows:

	The Group	
	2005 HK\$	2004 HK\$
Salaries and other allowances	1,035,298	1,362,509
Pension scheme contributions	36,639	42,000
	<u>1,071,937</u>	<u>1,404,509</u>

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

9. TAXATION

- (a) No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the year. No provision for PRC enterprise income tax has been made as the PRC subsidiary incurred a loss for the year.
- (b) The taxation for the year can be reconciled to the loss before taxation as stated in the financial statements as follows:

	The Group	
	2005 HK\$	2004 HK\$
Loss before taxation	<u>(21,084,480)</u>	<u>(51,353,518)</u>
Taxation calculated at Hong Kong profits tax rate of 17.5%	(3,689,784)	(8,986,866)
Tax effect of expenses not deductible for taxation purposes	621,902	6,038,381
Tax effect of non-taxation items	(219,076)	(915,642)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(775,002)	-
Deferred tax benefits arising from tax losses and others not recognised	<u>4,061,960</u>	<u>3,864,127</u>
Taxation	<u>-</u>	<u>-</u>

- (c) Details of unprovided deferred tax during the year are set out in note 28 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 July 2005 dealt with in the financial statements of the Company, was HK\$64,571,401 (2004: HK\$27,619,091) (note 31).

11. LOSS PER SHARE

	2005 HK\$	2004 HK\$
Loss:		
Net loss from ordinary activities attributable to shareholders used in basic and diluted loss per share calculation	<u>19,586,171</u>	<u>51,353,518</u>
Shares:		
Weighted average number of ordinary shares used in the basic loss per share calculation	<u>813,696,000</u>	<u>813,696,000</u>
Loss per share – basic	<u>2.4 cents</u>	<u>6.3 cents</u>

As the exercise price of the outstanding share options was higher than the average market price of the Company's shares during the years ended 31 July 2005 and 31 July 2004, they exerted no dilution effect on the basic loss per share for the years ended 31 July 2005 and 31 July 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

12. FIXED ASSETS**The Group**

	Buildings	Leasehold improvements	Machinery and office equipment	Motor vehicle	Furniture and fixtures	Construction in progress	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<i>(Note a)</i>							
Cost:							
At 31 July 2004	-	3,746,250	8,444,918	200,000	318,051	-	12,709,219
Additions	-	-	83,855	-	3,900	-	87,755
Other additions <i>(Note b)</i>	85,831,114	-	21,377,580	1,950,485	-	475,088	109,634,267
Exchange adjustments	1,398,973	-	348,333	27,904	-	7,744	1,782,954
Disposals	-	(300,000)	(338,532)	(238,495)	(289,747)	-	(1,166,774)
At 31 July 2005	<u>87,230,087</u>	<u>3,446,250</u>	<u>29,916,154</u>	<u>1,939,894</u>	<u>32,204</u>	<u>482,832</u>	<u>123,047,421</u>
Aggregate depreciation and impairment:							
At 31 July 2004	-	2,905,341	6,045,909	66,667	303,661	-	9,321,578
Provided during the year	2,896,800	336,364	2,137,046	50,000	-	42,944	5,463,154
Other additions <i>(Note b)</i>	32,401,190	-	12,345,244	1,755,437	-	21,361	46,523,232
Exchange adjustments	575,327	-	222,840	25,114	-	1,048	824,329
Written back on disposal	-	(300,000)	(162,238)	(214,646)	(275,358)	-	(952,242)
At 31 July 2005	<u>35,873,317</u>	<u>2,941,705</u>	<u>20,588,801</u>	<u>1,682,572</u>	<u>28,303</u>	<u>65,353</u>	<u>61,180,051</u>
Net book value:							
At 31 July 2005	<u>51,356,770</u>	<u>504,545</u>	<u>9,327,353</u>	<u>257,322</u>	<u>3,901</u>	<u>417,479</u>	<u>61,867,370</u>
At 31 July 2004	<u>-</u>	<u>840,909</u>	<u>2,399,009</u>	<u>133,333</u>	<u>14,390</u>	<u>-</u>	<u>3,387,641</u>

Note a: The Group's buildings were situated in the People's Republic of China ("PRC").

Note b: The amounts represent the cost and aggregate depreciation and impairment of fixed assets at the date of change of status of the Group's jointly-controlled entity in the PRC to a subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

12. FIXED ASSETS (continued)

The Company

	Leasehold improvements HK\$	Machinery and office equipment HK\$	Furniture and fixtures HK\$	Total HK\$
Cost:				
At 31 July 2004	2,521,250	4,773,955	318,051	7,613,256
Additions	–	81,893	3,900	85,793
Disposals	–	–	(289,747)	(289,747)
	<u>2,521,250</u>	<u>4,855,848</u>	<u>32,204</u>	<u>7,409,302</u>
At 31 July 2005	2,521,250	4,855,848	32,204	7,409,302
Accumulated depreciation:				
At 31 July 2004	2,521,250	4,651,667	303,662	7,476,579
Provided during the year	–	83,801	–	83,801
Written back on disposal	–	–	(275,358)	(275,358)
	<u>2,521,250</u>	<u>4,735,468</u>	<u>28,304</u>	<u>7,285,022</u>
At 31 July 2005	2,521,250	4,735,468	28,304	7,285,022
Net book value:				
At 31 July 2005	<u>–</u>	<u>120,380</u>	<u>3,900</u>	<u>124,280</u>
At 31 July 2004	<u>–</u>	<u>122,288</u>	<u>14,389</u>	<u>136,677</u>

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31 July 2005***13. LAND USE RIGHTS**

	HK\$
Cost:	
Additions arising from the change of status of the Group's jointly-controlled entity to a subsidiary	29,715,221
Exchange adjustments	<u>484,332</u>
At 31 July 2005	<u>30,199,553</u>
Accumulated amortisation:	
Additions arising from the change of status of the Group's jointly-controlled entity to a subsidiary	3,318,201
Charge for the year	445,728
Exchange adjustments	<u>61,349</u>
At 31 July 2005	<u>3,825,278</u>
Net book value:	
At 31 July 2005	<u>26,374,275</u>
At 31 July 2004	<u> -</u>

The land use rights are valid for a period of 50 years from 1999 and situated in the PRC. At 31 July 2005, part of the land use rights of the Group with a net book value of approximately HK\$10,886,000 (2004: HK\$Nil) were pledged to a bank to secure the short term bank loans.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

14. INTANGIBLE ASSETS

The Group

	Intellectual properties	Technology knowhow	Total
	HK\$	HK\$	HK\$
Cost:			
At 31 July 2004	62,935,586	1,494,884	64,430,470
Additions	66,038	–	66,038
Addition arising from the change of status of the Group's jointly-controlled entity to a subsidiary	6,666,284	–	6,666,284
Exchange adjustments	<u>109,731</u>	<u>–</u>	<u>109,731</u>
At 31 July 2005	<u>69,777,639</u>	<u>1,494,884</u>	<u>71,272,523</u>
Accumulated amortization and impairment:			
At 31 July 2004	62,935,586	1,494,884	64,430,470
Addition arising from the change of status of the Group's jointly-controlled entity to a subsidiary	2,412,279	–	2,412,279
Amortisation for the year	513,423	–	513,423
Exchange adjustments	<u>47,686</u>	<u>–</u>	<u>47,686</u>
At 31 July 2005	<u>65,908,974</u>	<u>1,494,884</u>	<u>67,403,858</u>
Carrying amount:			
At 31 July 2005	<u>3,868,665</u>	<u>–</u>	<u>3,868,665</u>
At 31 July 2004	<u>–</u>	<u>–</u>	<u>–</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

15. WEBSITE DEVELOPMENT COSTS

	The Group
	HK\$
Cost:	
At 31 July 2004 and 2005	26,946,020
Accumulated amortisation and impairment:	
At 31 July 2004 and 2005	<u>(26,946,020)</u>
Carrying amount:	
At 31 July 2004 and 2005	<u><u>-</u></u>

16. INTERESTS IN SUBSIDIARIES

	The Company	
	2005	2004
	HK\$	HK\$
Unlisted shares, at cost	13,227,658	13,227,658
Amounts due from subsidiaries	<u>333,575,171</u>	<u>275,213,269</u>
	346,802,829	288,440,927
Less: Impairment losses	<u>(224,060,961)</u>	<u>(163,616,143)</u>
	<u><u>122,741,868</u></u>	<u><u>124,824,784</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

16. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation	Nominal value of issued share capital/ registered 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	the British Virgin Islands	US\$2	100	-	Provision of online general healthcare content
Ladiesasia Limited	the 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	the British Virgin Islands	US\$1	100	-	Investment holding
iSolutions Development Limited	Hong Kong	HK\$2	100	-	Portal development
GreaterChina Biotherapeutics Company Limited	the British Virgin Islands	US\$1	100	-	Holding of intellectual properties
Guangdong Jianlibao Pharmaceutical Co., Ltd. ("JLB")	The People's Republic of China ("PRC")	RMB91,300,000	-	80	Manufacture and sale of pharmaceutical and healthcare products

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

16. INTERESTS 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.

Further details of the investment in JLB are shown in note 17.

17. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	The Group	
	2005 HK\$	2004 HK\$
Share of net assets	-	49,563,920
Goodwill on acquisition	-	23,129,503
	-	72,693,423

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of registration and operation	Ownership interest	Voting power	Profit sharing	Principal activities
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 two years ended 31 December 2004 respectively under the accounting principles generally accepted in the People's Republic of China (the "PRC"). The Group has commenced the process of pursuing the profit guarantee with the vendor and no income has been accrued on these financial statements.

With effect from 4 November 2004, the Group had gained unilateral control of the board of directors of JLB. Accordingly JLB was reclassified as a subsidiary on that date and its results have been consolidated into the Group's financial statements since.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

18. GOODWILL

	HK\$
Cost:	
Transfer resulting from the change of status of the Group's jointly-controlled entity to a subsidiary and at 31 July 2005	<u>25,118,013</u>
Accumulated amortisation:	
Transfer resulting from the change of status of the Group's jointly-controlled entity to a subsidiary	2,302,485
Amortisation for the year	<u>941,925</u>
At 31 July 2005	<u>3,244,410</u>
Carrying amount:	
At 31 July 2005	<u><u>21,873,603</u></u>

19. LONG TERM INVESTMENTS

	The Group		The Company	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Unlisted shares, at cost	<u>1,763,788</u>	<u>194,200</u>	<u>1,560,000</u>	<u>-</u>

20. INVENTORIES

	The Group	
	2005 HK\$	2004 HK\$
Inventories comprise:		
Raw materials	1,320,109	1,160,948
Work-in-progress	207,597	166,746
Finished goods	1,564,443	1,287,167
Goods for resale	<u>4,345,000</u>	<u>4,345,000</u>
	<u><u>7,437,149</u></u>	<u><u>6,959,861</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

21. 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:

	The Group	
	2005 HK\$	2004 HK\$
0 – 60 days	796,470	431,775
61 – 90 days	198,309	151,299
Over 90 days	<u>812,666</u>	<u>202,125</u>
	<u><u>1,807,445</u></u>	<u><u>785,199</u></u>

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	The Group		The Company	
		2005	2004	2005	2004
Prepayments		3,134,788	246,066	62,500	62,500
Utility and other deposits	(i)	2,520,397	21,164,766	1,888,150	1,602,500
Interest and advances		32,114	2,259,176	32,114	7,318
Other receivables	(i)	11,534,591	-	-	-
Due from related companies	(ii)	<u>1,920,883</u>	<u>3,096,263</u>	<u>396,482</u>	<u>-</u>
		<u><u>19,142,773</u></u>	<u><u>26,766,271</u></u>	<u><u>2,379,246</u></u>	<u><u>1,672,318</u></u>

Notes:

- (i) Utility and other deposits as at 31 July 2004 included a deposit of HK\$15,630,000 paid to the contractor for the construction of a pharmaceutical plant in the PRC. Due to the temporary suspension of the construction work, the contractor agreed to refund the unutilised amount of approximately HK\$11,630,000 to the Group by instalments with the last instalment payable in January 2006. The utilised portion of the deposit of HK\$4,000,000 was classified as a non-current asset and the unutilised refundable portion of the deposit was included as other receivable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

(continued)

Notes:

(ii) Due from related companies were made up of:

- (a) HK\$1,328,433 due from China Rich Holdings Limited and certain of its subsidiaries ("China Rich Group"). The amounts are unsecured, interest-free and have no fixed terms of repayment. Ms. Cheng Kit Yin, Kelly, a director of the Company, has beneficial interest in China Rich Group. Mr. Kam Shing and Dr. Lau Lap Ping is an executive director and an independent non-executive director of China Rich Holdings Limited respectively. Ms. Cheng Kit Yin, Kelly was also an executive director of that company and resigned on 7 January 2005. The maximum amount outstanding during the year was HK\$1,514,895; and
- (b) HK\$592,450 due from another two related companies. The amounts are unsecured, interest-free and has no fixed terms of repayment. The maximum amount outstanding during the year was HK\$2,583,830.

23. SHORT TERM INVESTMENTS

	The Group		The Company	
	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$
Listed equity securities in				
Hong Kong at market value	<u>350,317</u>	<u>22,881</u>	<u>350,317</u>	<u>22,881</u>

24. TRADE PAYABLES

As at 31 July 2005, the aged analysis of trade payables was as follows:

	The Group	
	2005	2004
	HK\$	HK\$
0 - 60 days	92,413	-
61 - 90 days	528	-
Over 90 days	<u>912,578</u>	-
	<u>1,005,519</u>	-

25. DUE TO A RELATED COMPANY

The amount due is unsecured, interest-free and has no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

26. INTEREST-BEARING BANK BORROWINGS

As at 31 July 2005, the bank loans and overdrafts were secured by the bank deposits of the Group and part of the land use rights of the Group.

	The Group		The Company	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Bank overdrafts – secured	12,622,862	8,884,276	-	-
Bank loans – secured	4,793,864	56,636,646	-	-
	17,416,726	65,520,922	-	-

27. OTHER LOANS

Other loans represent the amounts owing by JLB to the minority shareholders in the PRC (the "MI"). Pursuant to the agreement on the acquisition of JLB, the MI shall discharge this liability of JLB. The Group is pursuing the waiver of the loan with the MI. No adjustment has been made to the financial statements pending the outcome.

28. DEFERRED TAXATION

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

	The Group		The Company	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
General and bad debt allowances	364,000	87,500	-	-
Decelerated/(accelerated) depreciation allowances	142,000	(31,000)	222,000	246,000
Tax losses	23,647,000	28,168,500	2,311,000	2,212,000
	24,153,000	28,225,000	2,533,000	2,458,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

28. DEFERRED TAXATION *(continued)*

At 31 July 2005, the Group has unused tax losses of approximately HK\$127,627,000 (2004: HK\$160,963,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK\$13,816,000 (2004: HK\$Nil) arising in the PRC that are available for offsetting against the taxable profits of the PRC subsidiary in the next five years.

29. SHARE CAPITAL

Shares

	2005 HK\$	2004 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 ordinary shares of HK\$0.01 each	<u>8,136,960</u>	<u>8,136,960</u>

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 30 to the financial statements.

30. SHARE OPTION 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

30. 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

For the year ended 31 July 2005

30. 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 2004	Cancelled during the year	At 31 July 2005
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
				<u>74,808,000</u>	<u>(1,000,000)</u>	<u>73,808,000</u>
Other employees						
In aggregate	19.12.2000	<i>note (i)</i>	0.218	1,500,000	-	1,500,000
	19.4.2002	19.4.2002-18.4.2012	0.234	400,000	-	400,000
				<u>1,900,000</u>	<u>-</u>	<u>1,900,000</u>
				<u>76,708,000</u>	<u>(1,000,000)</u>	<u>75,708,000</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 75,708,000 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 75,708,000 additional ordinary shares of the Company and additional share capital of HK\$757,080 and share premium of HK\$16,678,592 (before issue expenses).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

31. RESERVES

The 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 pages 33 of the financial statements.

The Company

	Share premium account HK\$	Long term investment revaluation reserve HK\$	Accumulated losses HK\$	Total HK\$
At 31 July 2003	394,291,209	(31,440,000)	(173,334,776)	189,516,433
Net loss for the year	-	-	(27,619,091)	(27,619,091)
Realised on disposal	-	31,440,000	-	31,440,000
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 July 2004	394,291,209	-	(200,953,867)	193,337,342
Net loss for the year	-	-	(64,571,401)	(64,571,401)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 July 2005	<u>394,291,209</u>	<u>-</u>	<u>(265,525,268)</u>	<u>128,765,941</u>

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 reserve accounts subject to the provision of the Companies Law (1998 Revision) of the Cayman Islands.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Change of status of a jointly-controlled entity to a subsidiary

The Group adopted equity accounting in respect of its investment in the jointly-controlled entity, Guangdong Jianlibao Pharmaceutical Co., Ltd., in previous years. As explained in Note 17, this company was became a subsidiary on 4 November 2004. Details of the additional assets and liabilities and minority interest included in the consolidation are as follows:

	HK\$
Fixed assets	63,111,035
Land use rights	26,397,020
Intangible assets	4,254,005
Inventories	1,405,668
Trade receivables	1,679,184
Prepayments, deposits and other receivables	256,062
Bank balances and cash	182,691
Interest-bearing bank borrowings	(4,716,981)
Trade payables	(1,206,630)
Other payables and accruals	(3,040,320)
Other tax payables	(543,179)
Other loans	(26,179,427)
Minority interest	<u>(12,319,825)</u>
	<u>49,279,303</u>
Net cash inflow from consolidation of a subsidiary:	
Bank balances and cash	<u>182,691</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

33. 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\$Nil (2004: HK\$578,387) to the China Rich Group.
- (ii) The Group paid an administrative service fee of HK\$Nil (2004: HK\$547,920) to the China Rich Group.
- (iii) The Group paid website development costs of HK\$Nil (2004: HK\$240,000) to the China Rich Group pursuant to the agreement entered into between the parties dated 3 January 2000.
- (iv) The Group sold goods amounting to HK\$167,762 (2004: HK\$59,393) to CR Airways Limited, a company beneficially owned by the controlling shareholder of the China Rich Group, according to the published prices and conditions offered to the customers of the Group.
- (v) The Group paid management fee of HK\$237,870 (2004: HK\$951,480) to Fitzroya Investments Pte Ltd., a company in which Ms. Cheng Kit Yin, Kelly is a director, for marketing and promotional services provided for the Group in Singapore and Malaysia. The fee was charged at a monthly fee pursuant to an agreement entered into between the parties.
- (vi) The Group paid rentals of HK\$Nil (2004: HK\$400,000) to Fitzroya International Holdings Limited, a company in which Mr. Kam Shing is a director.
- (vii) The Group received information technology advisory income of HK\$52,544 (2004: HK\$183,360) 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\$84,740 (2004: HK\$911,227), consultation income of HK\$64,000 (2004: HK\$Nil), paid sales agent commission of HK\$76,320 (2004: HK\$Nil) and charter flight expenses of HK\$Nil (2004: HK\$204,110) to CR Airways Limited, a company beneficially owned by the controlling shareholder of the China Rich Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

33. RELATED PARTY TRANSACTIONS *(continued)*

- (ix) The Group received service income of HK\$360,000 from C&A Solutions Limited, a company in which Ms. Cheng Kit Yin, Kelly is a shareholder in respect of sharing the cost of office premises and accounting services rendered by the Group. The income is charged at a monthly fee pursuant to an agreement entered into between the parties.
- (x) The Group received sale proceeds of HK\$285,554 on disposal of fixed assets to CR Airways Limited, a company beneficially owned by the controlling shareholder of the China Rich Group.
- (xi) The Group received sale proceeds of HK\$260,928 on disposal of fixed assets to the China Rich Group.

34. 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:

	The Group		The Company	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Within one year	1,434,761	837,798	-	-
In the second to fifth year, inclusive	905,447	1,370,941	-	-
	<u>2,340,208</u>	<u>2,208,739</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2005

35. 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 a 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 believe that the Company has a valid defence to the litigation and on the balance of probabilities, this alleged claim will likely to be resolved in favour of the Company. No provision for losses has been made other than for legal costs incurred.

- (b) The Company has given cross guarantees and pledged its bank deposits to banks to secure general banking facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31 July 2005 amounted to approximately HK\$12,622,862 (2004: HK\$65,521,000).

FINANCIAL SUMMARY

For the year ended 31 July 2005

	(Note 1)			(Note 2)	
	2001 HK\$	2002 HK\$	2003 HK\$	2004 HK\$	2005 HK\$
Turnover	6,769,009	23,966,892	8,670,341	4,180,437	8,323,928
Cost of sales	(89,431)	(5,139,167)	(12,456,567)	(2,007,280)	(5,031,224)
Gross profit/(loss)	6,679,578	18,827,725	(3,786,226)	2,173,157	3,292,704
Other revenue and gains	21,364,896	20,045,152	10,542,940	9,107,721	1,776,589
Administrative and other operating expenses	(72,343,735)	(32,448,823)	(58,281,165)	(24,729,956)	(25,478,496)
Impairment losses	(20,438,351)	(5,354,670)	(58,542,585)	-	-
Loss on disposal of long term investments	-	-	-	(23,491,178)	-
Prepayments written off	-	-	(12,500,000)	(4,598,750)	-
Profit/(loss) from operating activities	(64,737,612)	1,069,384	(122,567,036)	(41,539,006)	(20,409,203)
Finance costs	(8,582,008)	(5,835,324)	(1,583,071)	(962,510)	(390,661)
Share of loss of a jointly- controlled entity	-	-	(5,075,667)	(8,852,002)	(284,616)
Loss before tax	(73,319,620)	(4,765,940)	(129,225,774)	(51,353,518)	(21,084,480)
Tax	-	-	-	-	-
Loss before minority interests	(73,319,620)	(4,765,940)	(129,225,774)	(51,353,518)	(21,084,480)
Minority interests	4,260,493	-	-	-	1,498,309
Net loss for the year	<u>(69,059,127)</u>	<u>(4,765,940)</u>	<u>(129,225,774)</u>	<u>(51,353,518)</u>	<u>(19,586,171)</u>
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	443,725,229	474,181,123	214,161,471	191,852,162	166,294,774
Total liabilities	(171,954,541)	(232,928,375)	(73,240,417)	(70,844,626)	(53,169,986)
Minority interests	-	-	-	-	(10,997,898)
	<u>271,770,688</u>	<u>241,252,748</u>	<u>140,921,054</u>	<u>121,007,536</u>	<u>102,126,890</u>

FINANCIAL SUMMARY

For the year ended 31 July 2005

Notes:

1. The consolidated results for the three years ended 31 July 2003 and the assets, liabilities and minority interests as at 31 July 2001, 2002 and 2003 of the Group have been extracted from the Company's published annual reports.
2. The consolidated results for the two years ended 31 July 2005 and the assets, liabilities and minority interests as at 31 July 2004 and 2005 of the Group are set out on pages 29 to 31.