

# 2006

## Interim Report

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)*

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*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 in the Growth Enterprise Market of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to GreaterChina Technology Group Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*





## CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), we hereby present the results of GreaterChina Technology Group Limited (the "Company") and its subsidiaries (together the "Group") for the six months ended 31 January 2006.

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

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

The Group is intensely engaged in the study of Proteomics through the establishment of the Chinese Medicinal Fungal ("CMF") Proteomics Laboratory, a collaboration with the Department of Biology, Chinese University of Hong Kong. The study of Proteomics enables the detection of abnormalities for protein profile in diseases and tissues and apply a TCM/fungal methodology to identify and treat certain life threatening diseases such as leukemia, renal tumor, pancreatic tumor, liver tumor and other genetic diseases in which they are unique in this part of Asia Pacific Region.

On 4 November 2004, the Group had gained control of the board of directors of the pharmaceutical manufacturing plant in the People's Republic of China, in which the Group had 80% ownership interest. After diversification of the Group's business in the PRC, the business development plan of the Group is further enhanced by the production

facilities, the existing product lines and the distribution network of this pharmaceutical manufacturing plant. Therefore, the Group has fully complied with a vertical integration of its business model, research and product development through its own 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 strengthen 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 our shareholders' worth.

## FINANCIAL REVIEW

### Segment Information

For the six months ended 31 January 2006 under review ("Interim Period"), the Group recorded a total revenue of HK\$11.8 million, of which HK\$7.5 million was contributed from the Group's core business of sales of nutraceutical Chinese herbal products and related services, HK\$3.5 million from sales of western medicine in the PRC, HK\$0.3 million from advisory and consultation services, and HK\$0.5 million from interest income and other sundries. For the comparative figures in the corresponding period in last year, the Group earned a total revenue of HK\$6.5 million, of which HK\$3.3 million was generated from the sale of nutraceutical Chinese herbal products, HK\$1.8 million from sales of western medicine, HK\$0.1 million arose from advisory and consultation services and HK\$1.3 million arose from interest income and other sundries.

For the Interim Period, the overall revenue increased because the Group's major revenue from sales of herbal products increased by 128.4% due to the Group's continued effort in exploring new sales network. Besides, the sales from western medicine in the Interim Period was also increased by 95.4% because the results of the operation of a pharmaceutical plant was consolidated for the whole





Interim Period, while that in the corresponding period last year was only accounted for after the Group gained control of the pharmaceutical plant in November 2004. Although the administrative expenses were slightly increased by 12.0% to HK\$15.9 million in the Interim Period as compared to HK\$14.2 million in the corresponding period last year, it did not increase proportionately with the increase in turnover. However, the administrative expenses for the three months ended 31 January 2006 ("Quarterly Period") was reduced by 20% to HK\$7.9 million, as compared to that of HK\$9.9 million in the corresponding period last year due to the tight cost control policy.

As a result, the overall performance of the Group was improved. The losses attributable to equity holders of the Company for the Quarterly Period and Interim Period were HK\$4.9 million and HK\$9.3 million, represented decreases of 31.9% and 19.4% respectively, as compared to the losses attributable to equity holders of the Company of HK\$7.1 million and HK\$11.5 million for the three months and six months ended 31 January 2005. During the Interim Period, approximately loss of HK\$4.9 million was attributable from operation of the pharmaceutical plant.

## **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 period.

The current ratio of the Group was 1.8 as at 31 January 2006 compared to 1.8 as at 31 July 2005. The gearing ratio, defined as the ratio of total borrowings to total assets, was 30.3% as compared to 26.5% as at 31 July 2005. The increase is mainly due to increase in bank borrowings and reduce in certain assets such as investments. The Group's borrowings mainly comprise long term loans, a short term loan and overdrafts which amounted to approximately HK\$47.5 million as at 31 January 2006 (31 July 2005: HK\$44.0 million). The overdrafts, the short term loan and a long term loan are 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 period, the Directors consider the Group is in a healthy liquidity position.

Major currencies used for the Group's transactions were Hong Kong dollars and Renminbi. As the fiscal policy of the PRC government in relation to Renminbi was stable throughout the period 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 31 January 2006, the Group has operating lease commitments for various offices of the Group amounting to approximately HK\$2.0 million. Other than the aforementioned, there were no other significant capital commitments and contingent liabilities of the Group as at 31 January 2006.

The Group employed 81 full time employees as at 31 January 2006 (31 July 2005: 76). 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 period under review amounted to HK\$3.8 million (six months ended 31 January 2005: HK\$3.2 million).

Overall, the net asset value of the Group was approximately HK\$120.8 million.



## 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 six months ended 31 January 2006, the Group has 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

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:***

Restructured sales team and expanded sales network for western medicine in the PRC.

***BRAND-BUILDING AND DISTRIBUTION OF HERBAL AND OTHER 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™ products via our websites [www.herbsnsenses.com](http://www.herbsnsenses.com), [www.sensesshop.com](http://www.sensesshop.com) and expanding our scope of sphere into more healthcare distribution channels;

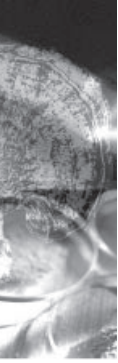
Promoting HERBSnSENSES™ products by organising seminars in Hong Kong as well as major cities in the PRC to educate the public the application and benefit of traditional Chinese medicine;

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

Obtaining licenses and health regulatory approval in the PRC.







## **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;

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.

### ***BRAND-BUILDING AND DISTRIBUTION OF HERBAL AND OTHER PRODUCTS:***

Official launching of HERBSnSENSES™ Cordyceps Fruiting Bodies, HERBSnSENSES™ Polysaccharides Liver Enrich and HERBSnSENSES™ Cordyceps Polysaccharides Platinum in Guangdong of the PRC;

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

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, 13 March 2006

## UNAUDITED CONSOLIDATED RESULTS

The Board of Directors (the "Board") of GreaterChina Technology Group Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the periods from 1 November 2005 to 31 January 2006 (the "Quarterly Period") and from 1 August 2005 to 31 January 2006 (the "Interim Period") together with the comparative unaudited consolidated results for the corresponding periods in 2005 as follows:

	Notes	For the three months ended 31 January		For the six months ended 31 January	
		2006 (Unaudited) HK\$	2005 (Unaudited) HK\$	2006 (Unaudited) HK\$	2005 (Unaudited) HK\$
Turnover	3	<b>4,089,412</b>	3,175,211	<b>11,294,658</b>	5,191,930
Cost of sales		<b>(1,577,883)</b>	(1,580,754)	<b>(5,689,225)</b>	(2,419,044)
Gross profit		<b>2,511,529</b>	1,594,457	<b>5,605,433</b>	2,772,886
Other revenue and gains	3	<b>258,943</b>	403,336	<b>480,534</b>	1,280,363
Administrative and other operating expenses		<b>(7,865,522)</b>	(9,873,298)	<b>(15,865,095)</b>	(14,161,031)
Loss from operating activities	5	<b>(5,095,050)</b>	(7,875,505)	<b>(9,779,128)</b>	(10,107,782)
Finance costs		<b>(286,663)</b>	(109,612)	<b>(468,786)</b>	(184,990)
Share of loss of a jointly controlled entity		-	-	-	(2,054,568)
Loss before taxation		<b>(5,381,713)</b>	(7,985,117)	<b>(10,247,914)</b>	(12,347,340)
Taxation	6	-	-	-	-
Loss for the period		<b>(5,381,713)</b>	(7,985,117)	<b>(10,247,914)</b>	(12,347,340)
Loss attributable to:					
Equity holders of the Company		<b>(4,852,077)</b>	(7,128,945)	<b>(9,260,183)</b>	(11,491,168)
Minority interest		<b>(529,636)</b>	(856,172)	<b>(987,731)</b>	(856,172)
		<b>(5,381,713)</b>	(7,985,117)	<b>(10,247,914)</b>	(12,347,340)
Interim dividend		-	-	-	-
Loss per share					
Basic	7	<b>0.6 cents</b>	0.9 cents	<b>1.1 cents</b>	1.4 cents
Diluted	7	<b>N/A</b>	N/A	<b>N/A</b>	N/A



**CONSOLIDATED BALANCE SHEET**

At 31 January 2006

		<b>31 January 2006 (Unaudited) HK\$</b>	31 July 2005 (Audited) HK\$
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Fixed assets	8	<b>58,702,504</b>	61,867,370
Land use rights	9	<b>26,163,085</b>	26,374,275
Intangible assets	10	<b>3,536,808</b>	3,868,665
Goodwill		<b>21,245,652</b>	21,873,603
Long term investments	11	<b>203,821</b>	1,763,788
Deposit paid		<b>4,000,000</b>	4,000,000
		<b>113,851,870</b>	119,747,701
<b>Current assets</b>			
Inventories		<b>4,845,652</b>	7,437,149
Trade receivables	12	<b>4,484,052</b>	1,807,445
Prepayments, deposits and other receivables	13	<b>13,348,914</b>	19,142,773
Available-for-sale financial assets		<b>355,231</b>	350,317
Pledged deposits		<b>16,215,509</b>	15,910,057
Bank balances and cash		<b>3,334,648</b>	1,899,332
		<b>42,584,006</b>	46,547,073

		<b>31 January 2006 (Unaudited) HK\$</b>	31 July 2005 (Audited) HK\$
	<i>Notes</i>		
<b>Current liabilities</b>			
Trade payables	14	<b>901,934</b>	1,005,519
Due to a related company		-	1,189,350
Other payables and accruals		<b>5,168,507</b>	5,803,350
Receipts in advance		-	659,890
Other tax payables		<b>83,130</b>	489,022
Interest-bearing bank borrowings	15	<b>17,888,569</b>	17,416,726
		<b>24,042,140</b>	26,563,857
<b>Net current assets</b>		<b>18,541,866</b>	19,983,216
<b>Total assets less current liabilities</b>		<b>132,393,736</b>	139,730,917
<b>Non-current liabilities</b>			
Interest-bearing bank borrowings	15	<b>2,886,336</b>	-
Other loans	16	<b>26,698,794</b>	26,606,129
<b>Net assets</b>		<b>102,808,606</b>	113,124,788
<b>CAPITAL AND RESERVES</b>			
<b>Share capital</b>	17	<b>8,136,960</b>	8,136,960
<b>Reserves</b>	18	<b>84,675,133</b>	93,989,930
<b>Equity attributable to equity holders of the Company</b>		<b>92,812,093</b>	102,126,890
<b>Minority interest</b>		<b>9,996,513</b>	10,997,898
<b>Total equity</b>		<b>102,808,606</b>	113,124,788





## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 January 2006

	For the six months ended 31 January	
	2006 (Unaudited) HK\$	2005 (Unaudited) HK\$
Total equity at beginning of period	<b>113,124,788</b>	121,007,536
Net loss for the period	<b>(10,247,914)</b>	(12,347,340)
Exchange differences arising on translation of overseas operations	<b>(54,614)</b>	-
Minority interest	<b>(13,654)</b>	11,877,337
Total equity at end of period	<b><u>102,808,606</u></b>	<u>120,537,533</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 January 2006

	For the six months ended 31 January	
	2006 (Unaudited) HK\$	2005 (Unaudited) HK\$
Net cash outflow from operating activities	<b>(3,106,400)</b>	(14,441,511)
Net cash inflow/(outflow) from investing activities	<b>1,505,685</b>	(450,079)
Net cash outflow from financing activities		- (51,036,055)
Decrease in cash and cash equivalents	<b>(1,600,715)</b>	(65,927,645)
Cash and cash equivalents at beginning of period	<b>5,186,527</b>	72,158,410
Cash and cash equivalents at end of period	<b><u>3,585,812</u></b>	<u>6,230,765</u>

Notes:

## 1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (1998 Revision) of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of the Group are trading of Chinese herbal products, provision of portal development and information technology advisory services and consultation services, and manufacture and selling of western medicine.

## 2. BASIS OF PREPARATION

The condensed unaudited consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") and Appendix 18 of the GEM Listing Rules.

The accounting policies and methods of computation used in the preparation of this financial statements are the same as those adopted in preparing the annual audited financial statements for the year ended 31 July 2005 except that the Group has changed certain of its accounting policies following its adoption of the new/revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereafter collectively referred to as the "new HKFRSs") which are effective for accounting periods on or after 1 January 2005. The adoption of the new HKFRSs had no material impact on the Company's results of operations and financial position except certain presentation and disclosure of financial statements would be changed.



### 3. TURNOVER, REVENUE AND GAINS

	For the three months ended 31 January		For the six months ended 31 January	
	2006 (unaudited) HK\$	2005 (unaudited) HK\$	2006 (unaudited) HK\$	2005 (unaudited) HK\$
<b>Turnover</b>				
Sale of goods	<b>3,842,212</b>	3,076,799	<b>11,015,458</b>	5,080,918
Rendering of services	<b>247,200</b>	98,412	<b>279,200</b>	111,012
	<b>4,089,412</b>	3,175,211	<b>11,294,658</b>	5,191,930
<b>Other revenue</b>				
Interest income	<b>175,996</b>	69,511	<b>366,073</b>	132,898
Income from the use of trademarks	-	277,778	-	694,445
Dividend income	<b>2,705</b>	6,644	<b>5,410</b>	6,644
Others	<b>75,328</b>	1,119	<b>103,758</b>	1,119
	<b>254,029</b>	355,052	<b>475,241</b>	835,106
<b>Gains</b>				
Unrealised holding gain on financial assets	-	13,704	-	54,051
Gain on disposal of financial assets	<b>4,914</b>	34,580	<b>4,914</b>	34,580
Gain on disposal of fixed assets	-	-	-	356,626
Exchange gain	-	-	<b>379</b>	-
	<b>4,914</b>	48,284	<b>5,293</b>	445,257
Other revenue and gains	<b>258,943</b>	403,336	<b>480,534</b>	1,280,363

### 4. SEGMENT INFORMATION

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

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

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

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

**(a) Business segments**

The following table present revenue and results for the Group's business segments for the period from 1 August 2005 to 31 January 2006:

	Herbal products HK\$	Advisory services HK\$	Western medicine products HK\$	Consolidated HK\$
<b>SEGMENT REVENUE</b>				
Turnover	7,520,888	279,200	3,494,570	11,294,658
<b>SEGMENT RESULTS</b>	<b>(934,011)</b>	<b>(943,909)</b>	<b>(3,880,807)</b>	<b>(5,758,727)</b>
Unallocated corporate expenses				(4,020,401)
Loss from operating activities				(9,779,128)
Finance costs				(468,786)
Share of loss of a jointly controlled entity				-
Loss before taxation				(10,247,914)
Taxation				-
Loss for the period				<b>(10,247,914)</b>



The following table presents revenue and results for the Group's business segment for the period from 1 August 2004 to 31 January 2005:

	Herbal products HK\$	Advisory services HK\$	Western medicine products HK\$	Consolidated HK\$
<b>SEGMENT REVENUE</b>				
Turnover	3,292,280	111,012	1,788,638	5,191,930
<b>SEGMENT RESULTS</b>	(1,573,840)	(1,047,328)	(4,205,496)	(6,826,664)
Unallocated corporate expenses				(3,281,118)
Loss from operating activities				(10,107,782)
Finance costs				(184,990)
Share of loss of a jointly controlled entity				(2,054,568)
Loss before taxation				(12,347,340)
Taxation				-
Loss for the period				(12,347,340)

**(b) Geographical segments**

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

	Turnover		Loss from operating activities	
	For the six months ended 31 January		For the six months ended 31 January	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
By geographical market:				
Hong Kong	<b>7,800,088</b>	3,403,292	<b>(5,309,258)</b>	(5,223,808)
The People's Republic of China ("PRC")	<b>3,494,570</b>	1,788,638	<b>(4,938,656)</b>	(6,963,380)
	<b>11,294,658</b>	5,191,930	<b>(10,247,914)</b>	(12,187,188)
Unallocated corporate expenses			-	(160,152)
Loss from operating activities			<b>(10,247,914)</b>	(12,347,340)

## 5. LOSS FROM OPERATING ACTIVITIES

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

	For the three months ended 31 January		For the six months ended 31 January	
	2006 (Unaudited) HK\$	2005 (Unaudited) HK\$	2006 (unaudited) HK\$	2005 (unaudited) HK\$
Depreciation	1,679,466	1,233,539	3,371,155	1,559,516
Amortisation of intangible assets	317,882	117,964	635,764	117,964
Amortisation of goodwill on acquisition of a jointly-controlled entity	-	313,975	-	627,950
Amortisation of goodwill	313,975	-	627,950	-
Research and development costs	24,050	-	24,050	10,000
Minimum lease payments under operating leases in respect of land and buildings	320,809	203,761	670,117	349,801
Auditors' remuneration	-	-	-	-
Staff costs including directors' remuneration:				
Salaries and other allowances	1,882,936	1,761,757	3,738,247	3,119,283
Pension scheme contributions	20,540	29,657	52,859	52,455
	<b>1,903,476</b>	1,791,414	<b>3,791,106</b>	3,171,738
Realised loss on financial assets	154,440	-	154,440	-

## 6. TAXATION

No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the six months period ended 31 January 2006 (2005: Nil). No provision for PRC enterprise income tax has been made as the PRC subsidiary incurred a loss for the six months ended 31 January 2006 (2005: Nil).

There was no significant unprovided deferred taxation during the six months ended 31 January 2006.





## 7. LOSS PER SHARE

The calculation of basic losses per share are based on the loss attributable to equity holders of the Company for the Quarterly Period and Interim Period of HK\$4,852,077 and HK\$9,260,183 respectively and on the weighted average number of shares of 813,696,000 in issue during the periods. The calculation of basic loss per share in the corresponding periods last year are based on the loss attributable to equity holders of the Company for the three months and six months ended 31 January 2005 of HK\$7,128,945 and HK\$11,491,168 respectively and on the weighted average number of shares of 813,696,000 during the periods.

As the exercise price of the outstanding share options was higher than the average market price of the Company's shares during the Quarterly Period and Interim Period, they exerted no dilution effect on the basic loss per share for those periods. Diluted loss per share amount for the three months and six months ended 31 January 2005 has not been disclosed as the share options outstanding during those periods had an anti-dilutive effect on the basic loss per share for those periods.

## 8. FIXED ASSETS

	Buildings	Leasehold improvements	Machinery and office equipment	Motor vehicle	Furniture and fixtures	Construction in progress	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Cost:							
At 1 August 2005	87,230,087	3,446,250	29,916,154	1,939,894	32,204	482,832	123,047,421
Additions	-	-	54,282	-	-	-	54,282
Exchange adjustments	303,809	-	75,647	6,059	-	1,682	387,197
At 31 January 2006	87,533,896	3,446,250	30,046,083	1,945,953	32,204	484,514	123,488,900
Accumulated depreciation and Impairment:							
At 1 August 2005	35,873,317	2,941,705	20,588,801	1,682,572	28,303	65,353	61,180,051
Provided during the period	1,931,200	168,182	1,235,111	25,000	650	11,012	3,371,155
Exchange adjustments	163,253	-	66,036	5,454	-	447	235,190
At 31 January 2006	37,967,770	3,109,887	21,889,948	1,713,026	28,953	76,812	64,786,396
Net book value:							
At 31 January 2006 (unaudited)	49,566,126	336,363	8,156,135	232,927	3,251	407,702	58,702,504
At 31 July 2005 (audited)	51,356,770	504,545	9,327,353	257,322	3,901	417,479	61,867,370

## 9. LAND USE RIGHTS

The land use rights are valid for a period of 50 years from 1999 and situated in the PRC. At 31 January 2006, part of the land use rights of the Group with a net book value of approximately HK\$10.9 million (31 July 2005: HK\$10.9 million) were pledged to a bank to secure the bank loans.

## 10. INTANGIBLE ASSETS

The intangible assets mainly comprises of licenses of certain western medicines.

## 11. LONG TERM INVESTMENTS

	<b>31 January 2006 (Unaudited) HK\$</b>	31 July 2005 (Audited) HK\$
Available-for-sale financial assets	<b>203,821</b>	203,788
Held-to-maturity financial assets	-	1,560,000
	<b>203,821</b>	<b>1,763,788</b>

## 12. TRADE RECEIVABLES

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

	<b>31 January 2006 (Unaudited) HK\$</b>	31 July 2005 (Audited) HK\$
0-60 days	<b>691,165</b>	796,470
61-90 days	<b>51,780</b>	198,309
Over 90 days	<b>3,741,107</b>	812,666
	<b>4,484,052</b>	<b>1,807,445</b>



**13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

	<b>31 January 2006 (Unaudited) HK\$</b>	31 July 2005 (Audited) HK\$
Prepayments	<b>1,148,410</b>	3,134,788
Utility and other deposits	<b>605,748</b>	2,520,397
Interest and advances	<b>17,948</b>	32,114
Other receivables	<b>9,474,697</b>	11,534,591
Due from related companies	<b>2,102,111</b>	1,920,883
	<b>13,348,914</b>	19,142,773

Due from related companies were made up of:

- (a) HK\$1,353,633 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 has beneficial interest in China Rich Group. Dr. Lau Lap Ping is an independent non-executive director of China Rich Holdings Limited; and
- (b) HK\$748,478 due from another two related companies. The amounts are unsecured, interest free and have no fixed terms of repayment.

**14. TRADE PAYABLES**

As at 31 January 2006, the aged analysis of trade payables was as follows:

	<b>31 January 2006 (Unaudited) HK\$</b>	31 July 2005 (Audited) HK\$
0-60 days	<b>267,509</b>	92,413
61-90 days	<b>122,444</b>	528
Over 90 days	<b>511,981</b>	912,578
	<b>901,934</b>	1,005,519

**15. INTEREST-BEARING BANK BORROWINGS**

As at 31 January 2006, the bank loans and overdrafts were secured by the bank deposits of the Group and part of the land use rights of the Group.

	<b>31 January 2006 (Unaudited) HK\$</b>	31 July 2005 (Audited) HK\$
Bank overdrafts – secured	<b>15,964,345</b>	12,622,862
Bank loans – secured	<b>4,810,560</b>	4,793,864
	<b><u>20,774,905</u></b>	<u>17,416,726</u>

**16. OTHER LOANS**

Other loans represent the amounts owing by Guangdong Jianlibao Pharmaceutical Co., Ltd. ("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.

**17. SHARE CAPITAL**

	<b>31 January 2006 (Unaudited) HK\$</b>	31 July 2005 (Audited) HK\$
Authorised: 2,000,000,000 ordinary shares of HK\$0.01 each	<b><u>20,000,000</u></b>	20,000,000
Issued and fully paid: 813,696,000 ordinary shares of HK\$0.01 each	<b><u>8,136,960</u></b>	<u>8,136,960</u>

**18. RESERVES**

	Share premium	Translation reserve	Accumulated losses	Total
	HK\$	HK\$	HK\$	HK\$
At 31 July 2005 (audited)	394,291,209	705,525	(301,006,804)	93,989,930
Net loss for the period	-	-	(9,260,183)	(9,260,183)
Exchange differences arising on translation of overseas operations	-	(54,614)	-	(54,614)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 2006 (unaudited)	394,291,209	650,911	(310,266,987)	84,675,133

**19. RELATED PARTIES TRANSACTIONS**

In addition to the balances detailed elsewhere in this report, the Group had the following transactions with related parties during the six months ended 31 January 2006:

- (i) The Group sold goods amounting to HK\$183,090 (2005: HK\$85,950) 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.
- (ii) The Group paid management fee of HK\$Nil (2005: HK\$250,020) to Fitzroya Investments Pte Ltd., a company of which Ms. Cheng Kit Yin, Kelly is a director, for marketing and promotional services provided for the Group in Singapore and Malaysia. The fee is charged at a monthly fee pursuant to an agreement entered into between the parties.
- (iii) The Group received information technology advisory income of HK\$25,200 (2005: HK\$26,272) from the China Rich Group. The fee was determined at prices agreed between the parties and was similar to terms offered to other clients.
- (iv) The Group received information technology advisory income of HK\$Nil (2005: HK\$84,740), paid sales agent commission of HK\$Nil (2005: HK\$2,028) to CR Airways Limited, a company beneficially owned by the controlling shareholders of the China Rich Group.

- (v) The Group received service income of HK\$150,000 (2005: HK\$180,000) 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.
- (vi) The Group received sale proceeds of HK\$Nil (2005: HK\$285,554) on disposal of fixed assets to CR Airways Limited, a company beneficially owned by the controlling shareholders of the China Rich Group.
- (vii) The Group received sale proceeds of HK\$Nil (2005: HK\$260,928) on disposal of fixed assets to the China Rich Group.



## 20. CONTINGENT LIABILITIES

The Company has given cross guarantees and pledged its bank deposits to banks to secure general banking facilities granted to its subsidiaries.

## 21. COMPARATIVE FIGURES

Due to adoption of new/revised HKFRSs and HKASs for the Interim Period, the accounting treatment and presentation of certain items on the financial statements have been revised to comply with the new requirements. Accordingly, certain figures have been adjusted in prior period. Also, certain comparative figures have been reclassified to conform with the current period's presentation.

## DIVIDEND

The directors do not recommend the payment of any dividend for the six months ended 31 January 2006 (2005: nil).

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 January 2006, 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:***

<b>Name of director</b>	<b>Number of shares directly and beneficially owned</b>	<b>Percentage of the Company's issued share capital</b>
Ms. Cheng Kit Yin, Kelly	44,046,020	5.4

The interests of the directors in the share options of the Company are separately disclosed under the section "Share Option Scheme" of this report.

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

Save as disclosed above, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed in the share option scheme under the section "Share Option Scheme" of this report, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.



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

At 31 January 2006, 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	135,616,000	17

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

## SHARE OPTIONS SCHEME

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

On 8 April 2002, the Company passed an ordinary resolution regarding the termination of the Old Scheme and adopted a new share option scheme (the "Revised Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations in compliance with the amended Chapter 23 of the GEM Listing Rules. All the share options granted under the Old Scheme which remained outstanding on the date of termination of that scheme continue to be valid and exercisable in accordance with the provisions of that scheme.

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

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

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

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

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

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



The following share options were outstanding during the period:

	Date of grant of share options	Exercise period of share options	Exercise price HK\$	Number of share options		
				At 1 August 2005	Cancelled during the period	At 31 January 2006
<b>Directors</b>						
Ms. Cheng Kit Yin, Kelly	19.12.2000	Note (i)	0.218	16,000,000	-	16,000,000
	4.6.2002	4.6.2002- 18.4.2012	0.234	51,808,000	-	51,808,000
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>73,808,000</u>	<u>(5,000,000)</u>	<u>68,808,000</u>
<b>Other employees</b>						
In aggregate	19.12.2000	Note (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>75,708,000</u>	<u>(5,000,000)</u>	<u>70,708,000</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.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge had been recognised in the income statement in respect of the value of options granted. At the balance sheet date, the Company had 70,708,000 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 70,708,000 additional ordinary shares of the Company and additional share capital of HK\$707,080 and share premium of HK\$15,558,592 (before issue expenses).



## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

For the Interim Period, 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.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the code provisions of the Code of Corporate Governance Practices (the "CG Code") set out in Appendix 15 of the GEM Listing Rules throughout the Interim Period, except for the following deviations:

- (i) The non-executive directors should be appointed for a specific term, subject to re-election. All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.





- (ii) The Company has not yet disclosed the terms of reference of the remuneration committee and audit committee on the website of the Company.
- (iii) The roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

#### **Code Provision A.2.1**

At present, Ms. Cheng Kit Yin, Kelly is both the Chairman and Chief Executive Officer of the Company who is responsible for managing the Board and the Group's business. The Company considers that the combination of the roles of Chairman and Chief Executive Officer can effectively formulate and implement the Company's strategies. The Company also considers that under the supervision of its Board and its independent non-executive directors, a balancing mechanism exists so that the interests of shareholders are adequately and fairly represented. The Company considers that there is no imminent need to change the arrangement.

#### **Code Provision A.4.1 and A.4.2**

At present, the independent non-executive directors are not appointed for a specific term, but are subject to retirement by rotation and re-election in accordance with the Company's Articles of Association. In addition, not every director is subject to retirement by rotation at least once every three years. Directors are subject to rotation in accordance with the Articles of Association of the Company provided that notwithstanding anything herein, the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. At such, with the exception of the Chairman, all directors are subject to retirement by rotation in accordance with the Company's Articles of Association. The Company considers that for stability reasons, the Chairman do not need to be subject to retirement by rotation and there is no imminent need to amend the Company's Articles of Association.

**Code Provision B.1.4 and C.3.4**

Appropriate actions are being taken to update the website for the Company, whereat the written terms of reference of the audit committee and remuneration committee will be disclosed. These terms of reference are also available from the Company on request.

**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.

**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. The audit committee currently comprises three independent non-executive directors, Dr. Lau Lap Ping, Mr. Man Kong Yui and Mr. Yeung Chi Hung. The audit committee has reviewed the draft of this report and has provided advice and comments thereon.





## **DIRECTORS' INTERESTS IN A COMPETING BUSINESS**

For the six months ended 31 January 2006, the directors are not aware of any business or interest of the directors, the management shareholders and their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interests which any such person has or may have with the Group.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 January 2006.

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

*Executive Directors:*

Ms. Cheng Kit Yin, Kelly  
Ms. Kuo Kwan

*Independent Non-executive Directors:*

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

Hong Kong, 13 March 2006