GreaterChina Technology Group Limited
大中華科技（集團）有限公司

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2008

(Stock Code: 8032)

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.

Contents

Corporate Profile

DIRECTORS

Executive Directors

Mr. Ma Man Pong

Mr. Leong Chi Wai

Mr. Leung King Yue, Alex

Ms. Lam Wing Ah

Ms. Chung Wai Han

Non-executive Director

Ms. Cheng Kit Yin, Kelly *(Chairman)*

Independent Non-executive Directors

Dr. Lau Lap Ping

Mr. Man Kong Yui

Mr. Yeung Chi Hung

AUTHORISED REPRESENTATIVES

Mr. Ma Man Pong

Ms. Lam Wing Ah

AUDIT COMMITTEE

Mr. Yeung Chi Hung *(Chairman)*

Dr. Lau Lap Ping

Mr. Man Kong Yui

NOMINATION COMMITTEE

Mr. Man Kong Yui *(Chairman)*

Mr. Ma Man Pong

REMUNERATION COMMITTEE

Dr. Lau Lap Ping *(Chairman)*

Mr. Man Kong Yui

Mr. Yeung Chi Hung

COMPLIANCE OFFICER

Mr. Ma Man Pong

COMPANY SECRETARY

Mr. Ma Man Pong

QUALIFIED ACCOUNTANT

Mr. Ma Man Pong

AUDITOR

Shu Lun Pan Horwath Hong Kong CPA Limited

Certified Public Accountants

20th Floor, Central Plaza, 18 Harbour Road

Wanchai, Hong Kong

BANKERS

Bank of China (Hong Kong) Limited

DBS Bank (Hong Kong) Limited

Corporate Profile

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
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands
British West Indies

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands
British West Indies

PRINCIPAL PLACE OF BUSINESS

Units 2102-3, 21st Floor
100 Queen's Road Central
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICES

Cayman Islands

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705 George Town
Grand Cayman
Cayman Islands
British West Indies

Hong Kong

Tricor Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

WEBSITE ADDRESS

www.gctg.com

STOCK CODE

8032

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 2008.

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

In November 2006, the Group took over 100% shareholding interest in Richtungen (Guangdong) Pharmaceutical Company Limited – the pharmaceutical manufacturing plant of western generic medicine in the People's Republic of China. Subsequently, 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.

In order to broaden revenue stream and to maximise the overall return to the Company's shareholders, the Company intended to enter into the natural resources business and signed framework agreements regarding investments in gold and lead reserves through its subsidiaries. Although the Company was unable to enter into definitive agreements, the Company will continue to explore business opportunities in this field.

A share purchase agreement between Blue Bright Limited and Ms. Cheng Kit Yin, Kelly for the sale and purchase of the 1,074,178,230 shares in the Company and the unconditional mandatory cash offer were completed on 29 May 2008 and 27 June 2008 respectively. Hence, on 14 July 2008, the Board appointed Mr. Ma Man Pong, Mr. Leong Chi Wai, Mr. Leung King Yue, Alex, Ms. Lam Wing Ah and Ms. Chung Wai Han as Executive Directors. Ms. Cheng Kit Yin, Kelly resigned as the Chief Executive Officer and became a Non-executive Director and thus continues her tenure as the Chairman of the Company. With the expertise and experience of these directors, we are confident that the new management team will lead the company to another horizon.

We will continue to develope our efforts to strengthening our business foundation to ensure we stand a strong position to strive market opportunities, increase growth potential and thus enhance the shareholders' value.

Chairman's Statement

FINANCIAL REVIEW

Segment Information

For the year ended 31 July 2008, the Group recorded a turnover of HK$11.8 million, of which HK$4.4 million was contributed from sales of nutraceutical Chinese herbal products and related services and HK$7.4 million from sales of western generic medicine in the PRC. The Group incurred losses of approximately HK$5.5 million from impairment losses on patent rights and construction in progress and general offer expenses. In the previous financial year, the Group achieved a turnover of HK$18.6 million, of which HK$12.7 million was generated from sales of nutraceutical Chinese herbal products and related services, HK$5.6 million from sales of western generic medicine in the PRC and HK$0.3 million from advisory and consultation income. There was an income approximately HK$13.8 million from recognition of negative goodwill and a waiver of loan and other sundries.

For the year under review, the Group's revenue from sales of western medicine was increased by 33% due to the expanded sales network in the PRC. However, the overall revenue was decreased by 37% as the Group's sales from herbal products was dropped by 66% due to the worldwide economic downturn and the delay of obtaining proper health regulatory approval and licenses in various overseas markets. Selling, administrative and other operating expenses decreased by approximately 21.4% mainly because of more stringent controls in this area. But due to an additional item related to share-based payment of HK$4.5 million which has no cash impact on our expenses, the percentage decrease became 33%.

The losses attributable to equity holders of the Company for the year ended 31 July 2008 were HK$30.5 million, representing an increase of 156.3% as compared to the losses attributable to equity holder of the Company of HK$11.9 million for the year ended 31 July 2007. The loss before interest, tax, depreciation and amortisation for the year ended 31 July 2008 was approximately HK$22.4 million after including the expense on share-based payment of HK$4.5 million. Had this expense been excluded, the loss before interest, tax, depreciation and amortisation would have been HK$17.9 million only.

Chairman's Statement

Other Financial Information

There were no material acquisitions and disposals of subsidiaries and affiliated companies during the year.

Except for listed equity securities which the management considered will enhance the overall financial return of the Group, there was no significant investment held by the Group during the year.

The current ratio of the Group was 0.5 as at the year end compared to 2.9 as at 31 July 2007. The gearing ratio, defined as the ratio of total borrowings to total assets, was 6.5% as compared to 5.2% as at 31 July 2007. The increase in gearing ratio is mainly due to the decrease in value of the total assets. The Group's borrowings mainly comprise bank loans which amounted to approximately HK$5.7 million (2007: HK$5.2 million) as at the year end. The loans are wholly secured by part of the land use rights and properties of the Group. The Group therefore has effectively no exposure to its bankers given that the value of the land use rights exceeds the amount of its bank loans. At 31 July 2008, the Group had cash and cash equivalents of approximately HK$0.23 million (2007: HK$4.4 million).

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 is stable throughout the years, there was no significant currency exposure of the Group.

As at the year end, the Group has operating lease commitments for various offices of the Group amounting to approximately HK$2.6 million. Other than the aforementioned, there were no other significant capital commitments as at the year end.

The Group employed 75 full time employees as at 31 July 2008 (2007: 83). 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$12.1 million (2007: HK$7.6 million).

Overall, the net assets of the Group were approximately HK$75.4 million equivalent to approximately HK$0.04 per share.

Chairman's Statement

BUSINESS REVIEW

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

During the year ended 31 July 2008, the Group had achieved the following objectives:

Research & Product Development:

Continued to conduct research and development at the Chinese Medicinal Fungal (CMF) Proteomics Laboratory;

Joint studies and research with the Guangdong Provincial People's Hospital to conduct human clinical trial on Immunomodulatory and Anti-Tumor Activities of HERBSnSENSES™ Cordyceps Polysaccharides Platinum; and

Joint studies and research with the Peking Union Medical College to conduct human clinical trial on Anti-Hepatitis and Anti-Tumor Activities of HERBSnSENSES™ Polysaccharides Liver Enrich.

Operation of a Pharmaceutical Manufacturing Plant:

Expanded the sales network for western medicine in the PRC.

Brand-Building and Distribution of Herbal and Other Products:

Continued the promotion of membership scheme to strengthen relations with existing members and to recruit new members by promoting the use of the online e-store system and organizing more joint membership programmes with external parties; and

Obtaining licenses and health regulatory approval in Taiwan and Indonesia. Other approvals in Malaysia, Singapore and the UAE are underway.

Chairman's Statement

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

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

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

Operation of a Pharmaceutical Manufacturing Plant:

Setting up of an international Good Manufacturing Practice (GMP) facility in the PRC;

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

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

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.

APPRECIATION

I would like to take this opportunity to express my gratitude to all members of the Board and staff for their dedication and contribution to the Group and to those who have continuously supported us.

Cheng Kit Yin, Kelly

Chairman

Hong Kong, 27 October 2008

Directors, Senior Management and Staff

DIRECTORS

The Company has five Executive Directors, one Non-executive Director and three Independent Non-executive Directors. Their details are set out below:

Executive Directors

Mr. Leong Chi Wai, aged 33, joined the Group in July 2008. Mr. Leong is also an executive director of Apex Capital Limited ("Apex") since 9 March 2007. Mr. Leong holds a bachelor degree in Business Administration from the University of Hong Kong and has 10 years' experience in managing listed and unlisted direct investments, property investments and corporate finance activities. He is a senior manager of Yu Ming Investment Management Limited ("Yu Ming") and licensed under the Securities and Futures Commission ("SFC") to carry out securities advisory, corporate finance advisory and asset management activities. Mr. Leong is also a substantial shareholder of Hua Yu Investment Management Limited, the investment manager of Apex.

Mr. Ma Man Pong, aged 37, is the qualified accountant and company secretary of the Group. Mr. Ma joined the Group in July 2008. He is also a director of Yu Ming Property Management Limited ("Yu Ming Property"). Mr. Ma is a member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Mr. Ma holds a bachelor degree of Business majoring in banking and finance from the University of South Australia.

Mr. Leung King Yue, Alex, aged 31, joined the Group in July 2008. Mr. Leung is also an executive director of Apex since 9 March 2007 and a director of UBA Investments Limited, a company listed under Chapter 21 of the Listing Rules, since 17 July 2007. Mr. Leung holds a bachelor degree in Commerce specialising in Economics and Finance from the University of Melbourne in Australia and is a Chartered Financial Analyst of the United States of America. Mr. Leung started his career in investment banking with Yu Ming in 2000 focusing on private equity projects, corporate finance advisory, merger and acquisition transactions and listed equities. Mr. Leung then joined JK Capital Management Limited (formerly known as MYM Capital Limited), a then sister company of Yu Ming, in 2003 as a portfolio manager specialising in investments in global high yield fixed income securities and listed Chinese equities. He is licensed by the SFC to carry out securities advisory, corporate finance advisory and asset management activities. He is currently a Responsible Officer of both JK Capital Management Limited and Asian Asset Management Limited.

Ms. Lam Wing Ah, aged 27, joined the Group in July 2008. Ms. Lam is also a director of Yu Ming Property, responsible for the operation and management of properties held by Yu Ming Property. She holds a bachelor degree in Business Administration from the Chinese University of Hong Kong and a bachelor degree of Laws from the University of London.

Directors, Senior Management and Staff

Ms. Chung Wai Han, aged 30, joined the Group in July 2008. Ms. Chung is the group controller of Yu Ming Property. Ms. Chung is a member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Ms. Chung graduated from the Hong Kong University of Science and Technology with a bachelor's degree of Business Administration (Accounting).

Non-executive Director

Ms. Cheng Kit Yin, Kelly, aged 56, is the founding Chairman of the Company where she founded the Group's first flagship herbal product HERBSnSENSES™ Cordyceps in 2001. She was the Group's driving force behind the expansion of the business into a health product company utilizing Traditional Chinese Medicine as a base with the support of advanced biotechnology. 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.

Independent Non-executive Directors

Dr. Lau Lap Ping, aged 57, joined the Group in January 2000, Dr. Lau 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.

Mr. Man Kong Yui, aged 48, joined the Group in March 2004, Mr. Man 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 and Brilliant Arts Multi-Media Holding Limited, both of which are listed companies 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.

Mr. Yeung Chi Hung, aged 47, joined the Group in January 2005, Mr. Yeung 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 15 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.

Directors, Senior Management and Staff

SENIOR MANAGEMENT

Research and Development

Dr. Zou Ling, aged 48, 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 57, 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 cardiovasology 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 51, graduated from the Guangzhou Medical College of Medicine and continued his study at the University of George Washington, USA. He acted as the Vice Governor for the Guangdong People's Provincial Hospital and also in charge of the entire Hospital's administration.

Dr. Zeng Guo Hong, aged 54, 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 superventricular 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 50, is the chief professor at the Gynecological Teaching and Research Section of the First Clinical Medical College under the Guangdong University of Traditional Chinese Medicine. She was conferred the title of "Middle-aged or Young Expert with Prominent Contributions" by the Ministry of Personnel. She has also received awards from the State Education Commission and the Ministry of Health on several occasions.

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 July 2008.

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 19 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 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 28 to 95.

The directors do not recommend the payment of any dividend for the year ended 31 July 2008.

CHARITABLE DONATIONS

Donations made by the Group during the year amounted to HK$27,019 (2007: HK$240,000).

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 19 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Company and the Group during the year are set out in note 15 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 30 and 31 to the financial statements respectively.

Directors' Report

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.

GROUP FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 July 2008 is set out on page 96 of the annual report.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements and in the consolidated statement of changes in equity on page 31 respectively.

DISTRIBUTABLE RESERVES

At 31 July 2008, the Company's reserves available for distribution to shareholders comprising share premium account less accumulated losses, amounted to HK$51,142,277.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 75% of the sales for the year and sales to the largest customer included therein accounted for approximately 31% of sales.

Directors' Report

Purchases from the Group's five largest suppliers accounted for approximately 65% purchases for the year and purchases from the largest supplier included therein accounted for approximately 19% of purchases.

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. Chung Wai Han	(appointed on 14 July 2008)
Ms. Lam Wing Ah	(appointed on 14 July 2008)
Mr. Leong Chi Wai	(appointed on 14 July 2008)
Mr. Leung King Yue, Alex	(appointed on 14 July 2008)
Mr. Ma Man Pong	(appointed on 14 July 2008)
Ms. Cheng Kit Yin, Kelly	(redesignated on 14 July 2008)
Ms. Kuo Kwan	(resigned on 14 September 2008)

Non-executive director:

Ms. Cheng Kit Yin, Kelly	(redesignated on 14 July 2008)

Independent non-executive directors:

Dr. Lau Lap Ping

Mr. Man Kong Yui

Mr. Yeung Chi Hung

Directors' Report

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

At the forthcoming Annual General Meeting, Mr. Yeung Chi Hung and Dr. Lau Lap Ping will retire as director by rotation and, being eligible, offer themselves for re-election in accordance with Articles 108(A) and 108(B). Mr. Leong Chi Wai, Ms. Lam Wing Ah, Ms. Chung Wai Han, Mr. Leung King Yue. Alex and Mr. Ma Man Pong will retire and, being eligible, offer themselves for re-election in accordance with Articles 112.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

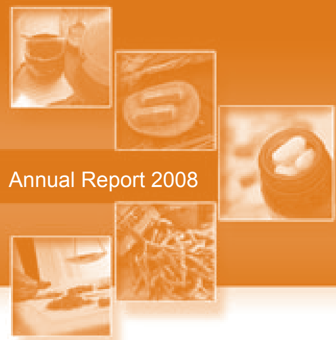
Biographical details of the directors of the Company and the senior management of the Group are set out on pages 9 to 11 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.



Directors' Report

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 July 2008, 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 Rules 5.49 to 5.67 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
Mr. Man Kong Yui	10,764,908	0.53
Ms. Kuo Kwan	3,663,866	0.18
Dr. Lau Lap Ping	1,263,908	0.06
Mr. Yeung Chi Hung	1,263,908	0.06

The interests of the directors in the share options of the Company are separately disclosed in note 31 to the financial statements.

Save as disclosed above, none of the directors had registered any 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 31 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

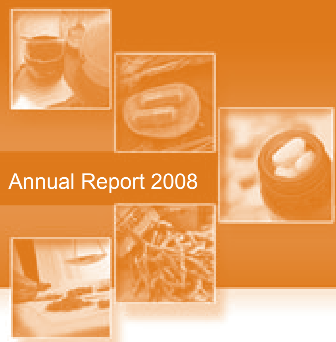
SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 July 2008, the following interest of 5% or more of the issued share capital of the Company was 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
Blue Bright Limited	1,075,532,204	52.65
China Global Gains Investment Limited	135,616,000	6.64

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.



Directors' Report

GROUP'S EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Board of Directors on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are approved by the board of directors, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 31 to the consolidated financial statements.

CONNECTED AND RELATED PARTY TRANSACTIONS

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

CORPORATE GOVERNANCE

A report on the principal corporate governance practice adopted by the Company is set out in pages 20 to 25 of the annual report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

For the year ended 31 July 2008, 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 conflict of interest which any such person has or may have with the Group.

Directors' Report

AUDITOR

The financial statements have been audited by Shu Lun Pan Horwath Hong Kong CPA Limited who retire and, being eligible, offer themselves for re-appointment. A resolution will be submitted to the annual general meeting to re-appoint Shu Lun Pan Horwath Hong Kong CPA Limited as auditor of the Company.

By Order of the Board
Ma Man Pong
Secretary

Hong Kong, 27 October 2008

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

Throughout the financial year ended 31 July 2008, the Group had complied with the code provisions in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules (the "CG Code"), except for the deviations to Code Provisions A.2.1 and A.4.1 as explained in this report. The board of Directors (the "Board") has continued to monitor and review the Group's progress in respect of corporate governance practices to ensure compliance.

SECURITIES TRANSACTIONS BY DIRECTORS

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").

The Company has made specific enquiry of all Directors of the Company, and the Directors have confirmed compliance with the Code during the year ended 31 July 2008.

Specific employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with the same Code. No incident of non-compliance was noted by the Company for the year ended 31 July 2008.

BOARD OF DIRECTORS

The Company is governed by the Board, which has the responsibility for leadership and control of the Company. The Directors are collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board set strategies and directions for the Group's affairs and activities with a view to develop its business and to enhance shareholders value.

The Board currently comprises of five Executive Directors, one Non-executive Director and three Independent Non-executive Directors and all Directors had served during the year ended 31 July 2008.

Corporate Governance Report

The Board met 5 times during the year ended 31 July 2008. Its composition and the attendance of individual directors at these board meetings were as follows:

Name		**Number of attendance**	
Executive Directors			
Ma Man Pong	(appointed on 14 July 2008)	–	–
Leong Chi Wai	(appointed on 14 July 2008)	–	–
Leung King Yue, Alex	(appointed on 14 July 2008)	–	–
Lam Wing Ah	(appointed on 14 July 2008)	–	–
Chung Wai Han	(appointed on 14 July 2008)	–	–
Kuo Kwan	(resigned on 14 September, 2008)	5/5	100%
Non-executive Director			
Ms. Cheng Kit Yin, Kelly *(Chairman)*		5/5	100%
Independent Non-executive Directors			
Dr. Lau Lap Ping		5/5	100%
Mr. Man Kong Yui		5/5	100%
Mr. Yeung Chi Hung		5/5	100%
Average attendance rate			100%

In compliance with Rules 5.01 and 5.02 of the GEM Listing Rules, the Company has three Independent Non-executive Directors (the "INED(s)"), namely Dr. Lau Lap Ping, Mr. Man Kong Yui and Mr. Yeung Chi Hung. These INEDs help the management to formulate the Group's development strategies, ensure the Board prepares its financial and other mandatory reports in strict compliance with required standards, and ensure the Company maintains appropriate system to protect the interests of the Company and its shareholders. The Board has received the annual confirmation in respect of their independence from each of the INEDs, and believes that independence is in compliance with the GEM Listing Rules as at the date of this annual report.

Corporate Governance Report

The Board has established three committees: Nomination Committee, Remuneration Committee and Audit Committee. All of the committees have terms of reference which accord with the principles set out in the CG Code. More details of these committees are set out in separate sections in this report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The code provision A.2.1 of the CG Code states that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Ms. Cheng Kit Yin, Kelly is the Chairman of the Company. She was also the Chief Executive Officer of the Company responsible for managing the Board and the Group's business until she resigned from this position and became a Non-executive Director of the Company on 14 July 2008. During that period when Ms. Cheng was both the Chairman and Chief Executive Officer, the Company considered that the combination of the roles of Chairman and Chief Executive Officer could effectively formulate and implement the Company's strategies. The Company also considered that under the supervision of its Board and its Independent Non-executive Directors, a balancing mechanism could exist so that the interests of shareholders could be adequately and fairly represented.

After the resignation of Ms. Cheng as the Chief Executive Officer of the Company, the Company has not appointed a new Chief Executive Officer. The function and responsibility of the Chief Executive Officer is being taken up by an Executive Director. Therefore, since 14 July 2008, the roles of the Chairman and Chief Executive Officer have been separated and no longer performed by the same individual.

NON-EXECUTIVE DIRECTORS

The code provision A.4.1 of the CG Code states that Non-executive Directors should be appointed for specific terms, subject to re-election.

The Company has deviated from this provision in that all Independent Non-executive Directors are not appointed for specific terms. They are, however, subject to retirement by rotation at least once every three years as all Directors are subject to retirement by rotation in accordance with the Company's Articles of Association.

Corporate Governance Report

NOMINATION COMMITTEE

The Nomination Committee has 2 members, comprising Mr. Man Kong Yui (Independent Non-executive Director) and Mr. Ma Man Pong (Executive Director). The Committee is chaired by Mr. Man Kong Yui.

The terms of reference of the Nomination Committee have been determined with reference to the CG Code.

The Nomination Committee is responsible for identifying potential new directors and recommends to the Board for decision. A director appointed by the Board is subject to election by shareholders at the first annual general meeting after his appointment. Under the Articles, all directors are subject to retirement by rotation and re-election by shareholders every 3 years.

Potential new directors are selected on the basis of their qualifications, skill and experience which the Nomination Committee considers will make a positive contribution to the performance of the Board.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee on 1 August 2005 with written terms of reference. The Remuneration Committee has 3 members, comprising 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 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 the remuneration of non-executive directors.

The Remuneration Committee met once during the year ended 31 July 2008 and all the members attended the meeting.

Corporate Governance Report

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 and 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 members have reviewed this Annual Report and has provided advice and comments thereon.

The Audit Committee held 4 meetings for the year ended 31 July 2008. Its composition and attendance of individual members at these Audit Committee meetings are as follows:

Members of the Audit Committee	Number of attendance	
Dr. Lau Lap Ping	4/4	100%
Mr. Man Kong Yui	4/4	100%
Mr. Yeung Chi Hung	4/4	100%
Average attendance		100%

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing the accounts of the Company. The Directors have prepared the financial statements on the assumption that the Group will continue as a going concern by taking into consideration that the holding company has agreed to provide adequate financial support to the Group to enable it to meet all its financial obligations as they fall due. The Directors are not aware of any other material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

The responsibilities of the external auditor about their financial reporting are set out in the Independent Auditor's Report on pages 26 and 27 of this report.

Corporate Governance Report

AUDITOR'S REMUNERATION

During the year, remuneration paid/payable to auditors for audit services and non-audit services of the Group are approximately HK$520,000 and HK$50,000, respectively.

INTERNAL CONTROL

The Board is responsible for the maintenance of a sound and effective internal control system of the Group and has established the Group's internal control policies and procedures for monitoring the internal control system.

The internal control system of the Group is designed for the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure maintenance of proper books and records for the provision of reliable financial information for internal use or publication, and to ensure compliance with relevant legislations and regulations. The management and various departments conduct periodic self-assessment of the effectiveness of the internal control policies and procedures. Besides, the Board reviews at least annually the overall effectiveness of the Group's internal control system.

The Board is of the view that the Group's internal control system is effective to achieve the Group's internal control objectives and will continue to assess the effectiveness of internal controls by considering reviews performed by the Audit Committee, executive management and auditor.

SHAREHOLDERS RELATIONS

The Group is committed to maintaining a high level of transparency and employs a policy of open and timely disclosure of relevant information to its shareholders.

The Board strives to encourage and maintain constant dialogue with its shareholders through various means. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries. The Company also updates its shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports. The corporate website of the Company has provided an effective communication platform to the public and the shareholders.

Independent Auditor's Report

Horwath

Shu Lun Pan 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 consolidated financial statements of GreaterChina Technology Group Limited set out on pages 28 to 95, which comprise the consolidated and Company balance sheets as at 31 July 2008, the consolidated income statement, the consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 July 2008 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTERS

Without qualifying our opinion, we draw attention to Note 3(b)(ii) to the financial statements which indicates that the Group incurred a loss of approximately HK$30,521,000 for the year ended 31 July 2008 and had accumulated losses and net current liabilities of approximately HK$361,793,000 and HK$7,766,000 respectively as at 31 July 2008. These conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

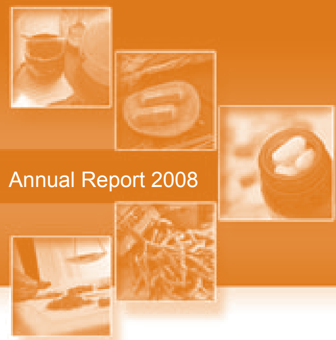
SHU LUN PAN HORWATH HONG KONG CPA LIMITED

Certified Public Accountants

27 October 2008

Shiu Hong NG

Practising Certificate number P03752



Consolidated Income Statement

For the year ended 31 July 2008
(Expressed in Hong Kong dollars)

	Note	2008 HK$	2007 HK$
Turnover	6	**11,798,988**	18,622,377
Cost of sales		**(5,899,744)**	(5,311,832)
Gross profit		**5,899,244**	13,310,545
Other revenue	6	**73,147**	834,917
Other (losses)/gains	6	**(5,544,883)**	12,937,532
Selling, administrative and other operating expenses		**(30,509,645)**	(38,827,944)
Loss from operation	7	**(30,082,137)**	(11,744,950)
Finance costs	8	**(438,504)**	(439,661)
Loss before taxation		**(30,520,641)**	(12,184,611)
Taxation	11	**–**	–
Loss for the year		**(30,520,641)**	(12,184,611)
Attributable to:			
Equity holders of the Company	12	**(30,520,641)**	(11,893,389)
Minority interest		**–**	(291,222)
		(30,520,641)	(12,184,611)
Dividends payable to equity holders of the Company for the year	13	**–**	–
Basic loss per share	14	**1.49 cents**	0.63 cents

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet

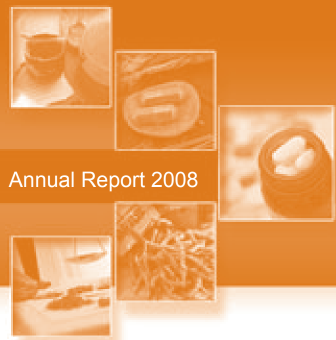
At 31 July 2008
(Expressed in Hong Kong dollars)

	Note	2008 HK$	2007 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*15*	**52,013,949**	57,596,866
Land use rights	*16*	**29,224,824**	27,103,001
Intangible assets	*17*	**1,797,206**	2,683,923
Goodwill	*20*	**–**	–
Held-to-maturity securities	*21*	**–**	780,000
Available-for-sale investments	*21*	**194,200**	194,200
		83,230,179	88,357,990
Current assets			
Inventories	*22*	**3,773,671**	4,293,823
Trade receivables	*23*	**2,310,045**	4,191,846
Other receivables, deposits and prepayments	*24*	**1,122,330**	4,889,374
Held-to-maturity securities	*21*	**393,822**	–
Cash and cash equivalents		**230,347**	4,383,822
		7,830,215	17,758,865
Current liabilities			
Trade payables	*25*	**712,268**	1,105,868
Other payables and accruals		**3,813,038**	3,853,971
Receipts in advance		**1,398,382**	926,424
Other tax payables		**645,992**	108,894
Interest-bearing bank borrowings	*26*	**5,703,856**	–
Due to ultimate holding company	*33(a)*	**977,472**	–
Director's loan	*33(b)*	**2,166,435**	–
Obligations under a finance lease	*27*	**178,561**	162,206
		15,596,004	6,157,363
Net current (liabilities)/assets		**(7,765,789)**	11,601,502
Total assets less current liabilities		**75,464,390**	99,959,492
Non-current liabilities			
Interest-bearing bank borrowings	*26*	**–**	5,162,783
Obligations under a finance lease	*27*	**63,485**	227,847
		63,485	5,390,630
Net assets		**75,400,905**	94,568,862
EQUITY			
Share capital	*30*	**20,426,956**	20,389,039
Reserves		**54,973,949**	74,179,823
Equity attributable to equity holders of the Company		**75,400,905**	94,568,862
Minority interest		**–**	–
Total equity		**75,400,905**	94,568,862

....

Director *Director*

The accompanying notes form part of these financial statements.



Balance Sheet

At 31 July 2008
(Expressed in Hong Kong dollars)

	Note	2008 HK$	2007 HK$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*15*	**9,140**	39,965
Interests in subsidiaries	*19*	**80,673,038**	108,604,904
Held-to-maturity securities	*21*	**–**	780,000
		80,682,178	109,424,869
Current assets			
Other receivables, deposits and prepayments	*24*	**67,000**	257,331
Held-to-maturity securities	*21*	**393,822**	–
Cash and cash equivalents		**32,401**	2,878,314
		493,223	3,135,645
Current liabilities			
Other payables and accruals		**1,936,599**	1,725,869
Due to ultimate holding company	*33(a)*	**977,472**	–
Director's loan	*33(b)*	**2,166,435**	–
		5,080,506	1,725,869
Net current (liabilities)/assets		**(4,587,283)**	1,409,776
Net assets		**76,094,895**	110,834,645
EQUITY			
Share capital	*30*	**20,426,956**	20,389,039
Reserves	*32*	**55,667,939**	90,445,606
Total equity		**76,094,895**	110,834,645

.... *Director*

.... *Director*

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 July 2008
(Expressed in Hong Kong dollars)

	Issued share capital HK$	Share premium account HK$	Share-based payment reserve HK$	Translation reserve HK$	Accumulated losses HK$	Attributable to equity holders of the Company HK$	Minority interest HK$	Total HK$
Balance at 31 July 2006	8,136,960	394,291,209	71,125	1,473,993	(319,464,030)	84,509,257	4,695,079	89,204,336
Net income recognised directly in equity								
Exchange differences arising on translation of overseas operations	–	–	–	4,871,236	–	4,871,236	–	4,871,236
Arising from increase in equity interest in a subsidiary	–	–	–	–	–	–	(4,403,857)	(4,403,857)
Loss for the year	–	–	–	–	(11,893,389)	(11,893,389)	(291,222)	(12,184,611)
Total recognised income and expenses for the year	**–**	**–**	**–**	**4,871,236**	**(11,893,389)**	**(7,022,153)**	**(4,695,079)**	**(11,717,232)**
Open offer of share subscription	12,205,440	4,611,452	–	–	–	16,816,892	–	16,816,892
Exercise of share options	46,639	191,903	(14,676)	–	–	223,866	–	223,866
Recognition of equity-settled share-based payment	–	–	41,000	–	–	41,000	–	41,000
Balance at 31 July 2007	**20,389,039**	**399,094,564***	**97,449***	**6,345,229***	**(331,357,419)***	**94,568,862**	**–**	**94,568,862**
Exchange differences arising on translation of overseas operations	–	–	–	6,645,019	–	6,645,019	–	6,645,019
Loss for the year	–	–	–	–	(30,520,641)	(30,520,641)	–	(30,520,641)
Total recognised income and expenses for the year	–	–	–	6,645,019	(30,520,641)	(23,875,622)	–	(23,875,622)
Recognition of equity-settled share-based payment	–	–	4,525,662	–	–	4,525,662	–	4,525,662
Cancellation of share opitons	–	–	(85,518)	–	85,518	–	–	–
Exercise of share options	37,917	156,017	(11,931)	–	–	182,003	–	182,003
Balance at 31 July 2008	**20,426,956**	**399,250,581***	**4,525,662***	**12,990,248***	**(361,792,542)***	**75,400,905**	**–**	**75,400,905**

* These reserves made up the consolidated reserves of HK$54,973,949 (2007: HK$74,179,823) in the consolidated balance sheet.

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 July 2008
(Expressed in Hong Kong dollars)

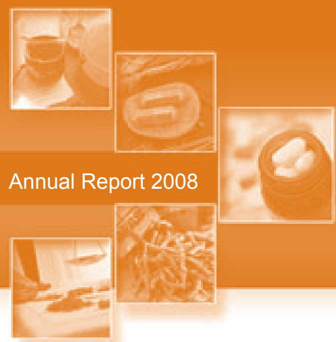
	2008 HK$	2007 HK$
Cash flows from operating activities		
Loss before taxation	**(30,520,641)**	(12,184,611)
Adjustments for:		
Interest expenses	**438,504**	439,661
Interest income	**(24,147)**	(827,003)
Amortisation of intangible assets	**676,705**	697,102
Impairment loss on intangible assets	**429,833**	–
Impairment loss on construction in progress	**4,000,000**	–
Waiver of loan, net of goodwill adjustment	**–**	(8,805,825)
Amortisation of land use rights	**680,827**	612,134
Depreciation	**6,285,570**	6,832,630
Write back on other payables	**(855,705)**	–
(Write back)/addition of provision for trade receivables	**(8,323)**	117,042
(Write back)/addition of provision for other receivables	**(922,498)**	4,500,000
Bad debts written off	**95,337**	–
Loss on deregistration of subsidiaries	**3,682**	–
Impairment loss on held-to-maturity securities	**386,178**	–
Write off of construction in progress	**436,945**	–
Loss on disposal of property, plant and equipment	**–**	108,372
Loss on property, plant and equipment written off	**3,076**	–
Gain on trading of securities	**(14,595)**	–
Negative goodwill credited to income	**–**	(4,240,079)
Share-based payment expense	**4,525,662**	41,000
Provision for slow moving inventories	**523,791**	1,746,965
Operating loss before working capital changes	**(13,859,799)**	(10,962,612)
Increase in inventories	**(3,639)**	(503,037)
Decrease/(increase) in trade receivables	**1,794,787**	(4,244,913)
Decrease in other receivables, deposits and prepayments	**4,689,542**	6,176,680
Decrease in trade payables	**(393,600)**	(162,758)
Increase in other payables and accruals	**814,772**	122,488
Increase in other tax payables	**537,098**	59,821
Increase in receipts in advance	**471,958**	258,750
Effect of foreign exchange rate changes	**(1,035,114)**	(513,967)
Cash used in operations	**(6,983,995)**	(9,769,548)
Interest received	**24,147**	827,003
Interest paid	**(438,504)**	(439,661)
Net cash used in operating activities	**(7,398,352)**	(9,382,206)

Consolidated Cash Flow Statement (continued)

For the year ended 31 July 2008
(Expressed in Hong Kong dollars)

	2008	2007
	HK$	HK$
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	–	30,000
Acquisition of held-to-maturity securities	–	(780,000)
Acquisition of additional equity interest of a subsidiary	–	(1)
Deregistration of subsidiaries	(3,682)	–
Purchase of property, plant and equipment	(18,425)	(1,072,744)
Proceeds from disposal of securities	14,595	–
Net cash used in investing activities	(7,512)	(1,822,745)
Cash flows from financing activities		
Proceeds from open offer of share subscription	–	16,816,892
Proceeds from exercise of share options	182,003	223,866
Increase in amount due to ultimate holding company	977,472	–
Decrease in amount due to a related company	–	(448,460)
Increase/(decrease) in amount due to a director	2,166,435	(1,313,400)
Repayment of finance lease obligations	(148,007)	(109,947)
Net cash generated from financing activities	3,177,903	15,168,951
Net (decrease)/increase in cash and cash equivalents	(4,227,961)	3,964,000
Cash and cash equivalents at beginning of year	4,383,822	409,113
Effect of foreign exchange rate changes	74,486	10,709
Cash and cash equivalents at end of year	230,347	4,383,822
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	230,347	4,383,822

The accompanying notes form part of these financial statements.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

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 sale of western medicine

2. Application of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies.

The impact of the adoption of HKFRS 7 "Financial Instruments: Disclosures" and HKAS 1 Amendments: Capital Disclosures has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2. Application of new and revised Hong Kong Financial Reporting Standards (continued)

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

		Effective for annual periods beginning on or after
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
HKAS 23 (Revised)	Borrowing costs	1 January 2009
HKAS 27 (Revised)	Consolidated and separate financial statements	1 July 2009
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation	1 January 2009
HKFRS 2 (Amendment)	Share-based payment – Vesting conditions and cancellations	1 January 2009
HKFRS 3 (Revised)	Business combinations	1 July 2009
HKFRS 8	Operating segments	1 January 2009
HK(IFRIC) – Int 12	Service concession arrangements	1 January 2008
HK(IFRIC) – Int 13	Customer loyalty programmes	1 July 2008
HK(IFRIC) – Int 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008
HK(IFRIC) – Int 15	Agreements for the construction of real estate	1 January 2009
HK(IFRIC) – Int 16	Hedges of a net investment in a foreign operation	1 October 2008

The adoption of HKFRS 3 (Revised) may affect the accounting of business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The Directors of the Company have considered these standards or interpretations and anticipate that these standards or interpretations will have no material impact on the results of operations and financial position of the Group.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. Principal accounting policies

(a) *Statement of compliance*

These financial statements have been prepared in accordance with all applicable HKFRSs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited.

(b) *Basis of preparation of financial statements and material uncertainties in respect of going concern*

(i) The consolidated financial statements have been prepared under the historical cost convention, as modified for certain financial instruments which are carried at fair value, as appropriate.

(ii) HKAS 1 "Presentation of Financial Statements" requires management to make an assessment of an entity's ability to continue as a going concern in preparing financial statements, and when management is aware, in making this assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, management is required to disclose these uncertainties.

In preparing these financial statements, the Directors are aware of the losses of approximately HK$30,521,000 for the year ended 31 July 2008 and accumulated losses and net current liabilities of approximately HK$361,793,000 and HK$7,766,000 respectively as at 31 July 2008. The Directors have prepared these financial statements on the assumption that the Group will continue as a going concern by taking into consideration that the holding company of the Group has agreed to provide adequate financial support to the Group to enable it to meet all its financial obligations as they fall due in the foreseeable future.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of the assets to their immediate recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in these financial statements.

(iii) The presentation of financial information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the applications of policies and reported amounts to assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

3. Principal accounting policies (continued)

(b) *Basis of preparation of financial statements and material uncertainties in respect of going concern (continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4 to the financial statements.

(c) *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 July each year.

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions, balances and unrealised gains on transactions between group enterprises are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment on the asset transferred.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the Group interest until the minority's share of losses previously absorbed by the Group has been recovered.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. Principal accounting policies (continued)

(d) *Business combinations*

Acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities assumed in a business combination are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(e) *Subsidiaries*

Subsidiaries are entities in which the Group has the power to govern the financial and operating policies, so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(f) *Goodwill*

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other asset of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On the disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. Principal accounting policies (continued)

(g) *Property, plant and equipment*

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Historical cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is 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 assets, the expenditure is capitalised as an additional cost of the asset or a separate asset.

Depreciation is charged so as to write off the cost of assets, other than properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates are as follows:

Buildings	5%
Leasehold improvements	Over the lease term
Machinery and office equipment	10% – $33\frac{1}{3}$%
Motor vehicles	20% – 25%
Furniture and fixtures	$33\frac{1}{3}$%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. Principal accounting policies (continued)

(h) 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.

(i) 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 granted.

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

(j) 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 10 to 20 years.

(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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. Principal accounting policies (continued)

(k) *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.

(l) *Impairment of tangible and intangible assets excluding goodwill*

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. Principal accounting policies (continued)

(l) Impairment of tangible and intangible assets excluding goodwill (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(m) 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.

(n) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets and financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(i) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. Principal accounting policies (continued)

(n) Financial instruments (continued)

(i) Financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss where the financial asset is either held for trading or it is designated as at fair value through profit or loss. Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial assets.

Held-to-maturity investments

Debt securities with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Available-for-sale financial assets

Investments in securities which do not fall into any of the above categories are classified as available-for-sale financial assets and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. Principal accounting policies (continued)

(n) Financial instruments (continued)

(i) Financial assets (continued)

Available-for-sale financial assets (continued)

Dividends on available-for-sale financial assets are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of available-for-sale financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

3. Principal accounting policies (continued)

(n) Financial instruments (continued)

(i) Financial assets (continued)

Impairment of financial assets (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. Principal accounting policies (continued)

(n) Financial instruments (continued)

(i) Financial assets (continued)

Impairment of financial assets (continued)

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included in trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. Principal accounting policies (continued)

(n) Financial instruments (continued)

(i) Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(ii) Financial liabilities and equity instrument

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangement entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. Principal accounting policies (continued)

(n) *Financial instruments (continued)*

(ii) Financial liabilities and equity instrument (continued)

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(o) *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

3. Principal accounting policies (continued)

(p) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. Principal accounting policies (continued)

(p) Taxation (continued)

(ii) Deferred tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group 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 expenditure 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.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the movement of the receivable can be measured reliably.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. Principal accounting policies (continued)

(r) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(s) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are expressed in Hong Kong dollars which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

Foreign currency transactions are translated into Hong Kong dollars, being the functional currency at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. Principal accounting policies (continued)

(s) Foreign currencies (continued)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the profit and loss account for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the profit and loss account for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operation (including comparatives) are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expenses items (including comparatives) are translated at the average exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in the profit and loss account in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(t) 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. Principal accounting policies (continued)

(t) Employee benefits (continued)

(ii) Retirement benefits scheme (continued)

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.

(iii) Share-based payments

The Group issues equity-settled share-based payments to certain directors and employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period with a corresponding increase in a capital reserve within equity, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. The equity amount is recognised in the share-based payment reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to accumulated losses).

Fair value is measured using the Black-Scholes-Merton Option Pricing Model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

(u) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. Principal accounting policies (continued)

(v) *Segment reporting*

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intragroup balances and transactions are between group enterprises within a single segment. Intersegment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

(w) *Related parties*

Two 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

3. Principal accounting policies (continued)

(x) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances and exclude value added tax or other sales related taxes.

(i) 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;

(ii) portal development and information technology advisory and consultation income: when the services are provided; and

(iii) interest income: on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

4. Critical accounting estimates and judgements

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results differ from these estimates.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

4. Critical accounting estimates and judgements (continued)

(b) Write-downs of inventories to net realisable value

The Group writes down inventories to net realisable value based on an estimate of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

(c) Impairment of trade and other receivables

The Group makes provision for impairment of trade and other receivables based on an estimate of the recoverability of these receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivables requires the use of estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of receivables and provision for impairment losses in the period in which such estimate has been changed.

(d) Assessment of impairment of assets

Management periodically reviews each asset for possible impairment or reversal of previously recognised impairment. Recoverability of assets is measured by a comparison of the carrying amount of an asset to its fair value less costs to sell. If such assets are considered by management to be impaired or no longer be impaired, the impairment or reversal of impairment previously recognised is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets less costs to sell. In the analysis of fair value, the Group uses independent valuations which are based on various assumptions and estimates.

5. 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;

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

5. Segment information (continued)

(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 sale of western medicine products.

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:

2008

	Herbal products HK$	Advisory services HK$	Western medicine products HK$	Consolidated HK$
Segment revenue*				
Turnover	4,378,316	1,000	7,419,672	11,798,988
Segment results	(5,717,546)	(1,036)	(8,123,960)	(13,842,542)
Unallocated corporate expenses				(16,239,595)
Loss from operation				(30,082,137)
Finance costs				(438,504)
Loss before taxation				(30,520,641)
Taxation				–
Loss for the year				(30,520,641)

* There were no inter-segment sales.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

5. Segment information (continued)

(a) *Business segments (continued)*

2008

	Herbal products HK$	Advisory services HK$	Western medicine products HK$	Unallocated HK$	Consolidated HK$
Segment assets	2,646,590	1,080,111	86,233,770		89,960,471
Unallocated assets					1,099,923
Total assets					91,060,394
Segment liabilities	422,668	182,746	9,663,931		10,269,345
Unallocated liabilities					5,390,144
Total liabilities					15,659,489
Other segment information:					
Additions to property, plant and equipment	–	7	5,567	12,851	18,425
Impairment loss on intangible assets	–	–	429,833	–	429,833
Impairment loss on construction in progress	–	–	–	4,000,000	4,000,000
Write off of construction in progress	–	–	436,945	–	436,945
Depreciation	180,283	349,659	5,593,379	162,249	6,285,570
Amortisation of intangible assets	–	–	1,357,532	–	1,357,532

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

5. Segment information (continued)

(a) Business segments (continued)

2007

	Herbal products HK$	Advisory services HK$	Western medicine products HK$	Consolidated HK$
Segment revenue*				
Turnover	12,704,262	319,757	5,598,358	18,622,377
Segment results	(3,992,133)	(330,663)	3,343,729	(979,067)
Unallocated corporate expenses				(10,765,883)
Loss from operation				(11,744,950)
Finance costs				(439,661)
Loss before taxation				(12,184,611)
Taxation				–
Loss for the year				(12,184,611)

* There were no inter-segment sales.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

5. Segment information (continued)

(a) Business segments (continued)

2007

	Herbal products HK$	Advisory services HK$	Western medicine products HK$	Unallocated HK$	Consolidated HK$
Segment assets	5,789,287	1,831,663	84,937,087		92,558,037
Unallocated assets					13,558,818
Total assets					106,116,855
Segment liabilities	703,919	242,367	8,426,160		9,372,446
Unallocated liabilities					2,175,547
Total liabilities					11,547,993
Other segment information:					
Additions to property, plant and equipment	–	18,627	43,367	1,510,750	1,572,744
Depreciation	564,980	288,776	5,801,751	177,123	6,832,630
Amortisation of intangible assets	–	–	1,309,236	–	1,309,236

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

5. Segment information (continued)

(b) *Geographical segments*

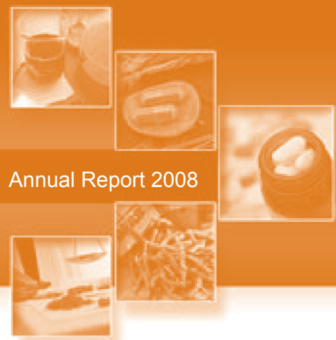
The following table provides an analysis of the Group's turnover, assets and additions to property, plant and equipment by geographical market:

2008

	Hong Kong HK$	**The People's Republic of China HK$**	**Consolidated HK$**
Segment revenue			
Turnover	**4,379,316**	**7,419,672**	**11,798,988**
Segment assets	**4,826,624**	**86,233,770**	**91,060,394**
Additions to property, plant and equipment	**12,858**	**5,567**	**18,425**

2007

	Hong Kong HK$	The People's Republic of China HK$	Consolidated HK$
Segment revenue			
Turnover	13,024,019	5,598,358	18,622,377
Segment assets	21,179,768	84,937,087	106,116,855
Additions to property, plant and equipment	1,529,377	43,367	1,572,744



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

6. Turnover, other revenue and other (losses)/gains

	2008 HK$	2007 HK$
Turnover		
Sales	**11,797,988**	18,302,620
Rendering of services	**1,000**	319,757
	11,798,988	18,622,377
Other revenue		
Interest income	**24,147**	827,003
Others	**49,000**	7,914
	73,147	834,917
Other (losses)/gains		
Write back of other payables	**855,705**	–
Gain on trading of securities	**14,595**	–
Loss on property, plant and equipment written off	**(3,076)**	–
Loss on deregistration of subsidiaries	**(3,682)**	–
Write off of construction in progress	**(436,945)**	–
Impairment loss on intangible assets	**(429,833)**	–
Impairment loss on held-to-maturity securities	**(386,178)**	–
Professional fees on general offer	**(1,155,469)**	–
Impairment loss on construction in progress	**(4,000,000)**	–
Waiver of loan, net of goodwill adjustment	**–**	8,805,825
Recognition of negative goodwill	**–**	4,240,079
Loss on disposal of property, plant and equipment	**–**	(108,372)
	(5,544,883)	12,937,532

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

7. Loss from operation

	2008 HK$	2007 HK$
The Group's loss from operation is arrived at after charging/(crediting):		
Cost of inventories	**6,423,535**	7,058,797
Depreciation of property, plant and equipment	**6,285,570**	6,832,630
Amortisation of land use rights	**680,827**	612,134
Amortisation of intangible assets	**676,705**	697,102
Research and development costs	**23,897**	3,072
Bad debts written off	**95,337**	–
Provision for slow moving inventories	**523,791**	1,746,965
Minimum lease payments under operating leases in respect of land and buildings	**1,739,840**	1,354,351
Auditor's remuneration	**520,000**	468,000
Staff costs including directors' remuneration:		
Salaries and other benefits	**7,210,563**	7,336,031
Share-based payment	**4,525,662**	41,000
Pension scheme contributions	**363,412**	211,721
	12,099,637	7,588,752
(Write back)/addition of provision for trade receivables	**(8,323)**	117,042
(Write back)/addition of provision for other receivables	**(922,498)**	4,500,000
Net foreign exchange gains	**(930,910)**	(349,113)
Loss on property, plant and equipment written off	**3,076**	–
Loss on deregistration of subsidiaries	**3,682**	–
Write off of construction in progress	**436,945**	–
Impairment loss on construction in progress	**4,000,000**	–
Impairment loss on intangible assets	**429,833**	–
Impairment loss on held-to-maturity securities	**386,178**	–

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

8. Finance costs

	2008 HK$	2007 HK$
Interest expenses:		
Bank loans and overdrafts wholly repayable within five years	**408,441**	403,978
Finance leases	**30,063**	35,683
	438,504	439,661

There was no interest capitalisation during the year (2007: Nil).

9. Directors' remuneration

Directors' remuneration disclosed pursuant to rules governing the Listing of Securities on the GEM of the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fees HK$	Salaries, allowances and benefits in kind HK$	Share-based payment HK$	Retirement scheme contributions HK$	2008 Total HK$
Executive directors					
Cheng Kit Yin, Kelly*	–	2,400,000	–	10,000	2,410,000
Chung Wai Han	–	–	718,359	–	718,359
Kuo Kwan	–	600,000	179,590	12,000	791,590
Lam Wing Ah	–	–	718,359	–	718,359
Leong Chi Wai	–	–	718,359	–	718,359
Leung King Yue, Alex	–	–	718,359	–	718,359
Ma Man Pong	–	–	718,359	–	718,359
Non-executive directors					
Cheng Kit Yin, Kelly*	–	–	718,359	–	718,359
Independent non-executive directors					
Lau Lap Ping	96,000	–	–	–	96,000
Man Kong Yui	96,000	–	–	–	96,000
Yeung Chi Hung	96,000	–	–	–	96,000
	288,000	3,000,000	4,489,744	22,000	7,799,744

* Cheng Kit Yin, Kelly was redesignated from an executive director to a non-executive director on 14 July 2008.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

9. Directors' remuneration (continued)

	Directors' fees HK$	Salaries, allowances and benefits in kind HK$	Share-based payment HK$	Retirement scheme contributions HK$	2007 Total HK$
Executive directors					
Cheng Kit Yin, Kelly	–	2,880,000	–	12,000	2,892,000
Kuo Kwan	–	600,000	–	12,000	612,000
Independent non-executive directors					
Lau Lap Ping	96,000	–	–	–	96,000
Man Kong Yui	96,000	–	–	–	96,000
Yeung Chi Hung	96,000	–	–	–	96,000
	288,000	3,480,000	–	24,000	3,792,000

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

(Expressed in Hong Kong dollars)

10. Five highest paid employees

The five highest paid employees during the year included two (2007: two) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2007: three) non-directors, highest paid employees for the year are as follows:

	2008 HK$	2007 HK$
Salaries and other allowances	**827,400**	650,698
Pension scheme contributions	**31,770**	30,898
	859,170	681,596

The aggregate emoluments of each of the non-director highest paid employees were less than HK$1,000,000 for the years ended 31 July 2008 and 2007.

11. 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 tax losses brought forward from previous years exceed the estimated income of the PRC subsidiary for the years ended 31 July 2008 and 2007.

(b) Taxation for the year can be reconciled to the accounting loss as follows:

	2008 HK$	2007 HK$
Loss before taxation	**(30,520,641)**	(12,184,611)
Taxation credit calculated at Hong Kong profits tax rate of 16.5% (2007: 17.5%)	**(5,035,906)**	(2,132,307)
Tax effect of expenses not deductible for taxation purposes	**898,737**	3,327,316
Tax effect of non-taxable items	**(57,115)**	(742,021)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(636,401)**	–
Utilisation of previously unrecognised tax losses	**–**	(3,577,454)
Deferred tax benefits arising from tax losses and other timing differences not recognised	**4,830,685**	3,124,466
Taxation	**–**	–

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

12. Net loss attributable to equity holders of the Company

The loss attributable to equity holders of the Company for the year ended 31 July 2008 dealt with in the financial statements of the Company, was HK$39,447,415 (2007: HK$15,767,665) (note 32).

13. Dividends

The Directors do not recommend the payment of a final dividend for the year ended 31 July 2008 (2007: Nil).

14. Basic loss per share

	2008	2007
	HK$	HK$
Loss:		
Loss attributable to equity holders of the Company used in basic and diluted loss per share calculation	**30,520,641**	11,893,389

	2008	2007
Shares:		
Weighted average number of ordinary shares used in the basic loss per share calculation	**2,042,695,590**	1,897,331,300
Loss per share-basic	**1.49 cents**	0.63 cents

No diluted loss per share is disclosed for the years ended 31 July 2008 and 2007. As the exercise price of the outstanding share options was higher than the average market price of the Company's shares during these two years, they exerted no dilution effect on the basic loss per share for these two years.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

15. Property, plant and equipment

The Group

	Buildings HK$ *(Note a)*	Leasehold improvements HK$	Machinery and office equipment HK$	Motor vehicles HK$	Furniture and fixtures HK$	Construction in progress HK$	Total HK$
Cost:							
At 31 July 2006	88,557,172	3,446,250	30,459,389	1,528,177	32,204	4,490,178	128,513,370
Additions	–	766,700	93,442	581,367	131,235	–	1,572,744
Exchange adjustments	5,385,833	–	1,353,323	80,777	–	29,811	6,849,744
Disposals	(195,940)	(925,000)	–	(200,000)	–	–	(1,320,940)
At 31 July 2007	93,747,065	3,287,950	31,906,154	1,990,321	163,439	4,519,989	135,614,918
Additions	–	–	18,425	–	–	–	18,425
Exchange adjustments	9,824,940	–	2,473,918	152,207	–	30,226	12,481,291
Written off	–	(2,521,250)	(3,169,519)	–	–	(436,945)	(6,127,714)
At 31 July 2008	103,572,005	766,700	31,228,978	2,142,528	163,439	4,113,270	141,986,920
Accumulated depreciation and impairment:							
At 31 July 2006	40,404,152	3,278,069	23,325,520	1,362,027	29,603	89,072	68,488,443
Charge for the year	3,973,331	260,670	2,451,099	120,127	19,621	7,782	6,832,630
Exchange adjustments	2,706,243	–	1,083,422	73,103	–	5,670	3,868,438
Disposals	(67,292)	(925,000)	–	(179,167)	–	–	(1,171,459)
At 31 July 2007	47,016,434	2,613,739	26,860,041	1,376,090	49,224	102,524	78,018,052
Charge for the year	4,415,486	278,800	1,403,569	142,670	45,045	–	6,285,570
Impairment for the year	–	–	–	–	–	4,000,000	4,000,000
Exchange adjustments	5,172,701	–	2,039,495	134,100	–	10,746	7,357,042
Written off	–	(2,521,250)	(3,166,443)	–	–	–	(5,687,693)
At 31 July 2008	56,604,621	371,289	27,136,662	1,652,860	94,269	4,113,270	89,972,971
Carrying amount:							
At 31 July 2008	46,967,384	395,411	4,092,316	489,668	69,170	–	52,013,949
At 31 July 2007	46,730,631	674,211	5,046,113	614,231	114,215	4,417,465	57,596,866

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

15. Property, plant and equipment (continued)

Note a: The Group's buildings were situated in the People's Republic of China ("PRC"). At 31 July 2008, certain of the Group's buildings with a carrying amount of approximately HK$20,375,000 (2007: HK$19,720,000) were pledged to a bank to secure the bank loans (Note 26).

Note b: The carrying amount of the motor vehicle of the Group held under a finance lease as at 31 July 2008 was HK$302,625 (2007: HK$437,125). The related depreciation charge for the year was HK$134,500 (2007: HK$100,875).

Note c: During the year, the Group assessed the carrying amount of property, plant and equipment and determined that the construction cost of the injection plant of HK$4,000,000 have been fully impaired as the Group has decided not to further invest in this project for the foreseeable future.

The Company

	Leasehold improvements HK$	Machinery and office equipment HK$	Furniture and fixtures HK$	Total HK$
Cost:				
At 31 July 2006	2,521,250	4,866,517	32,204	7,419,971
Additions	–	21,576	–	21,576
At 31 July 2007	2,521,250	4,888,093	32,204	7,441,547
Written off	(2,521,250)	(3,053,788)	–	(5,575,038)
At 31 July 2008	–	1,834,305	32,204	1,866,509
Accumulated depreciation:				
At 31 July 2006	2,521,250	4,796,524	29,604	7,347,378
Provided during the year	–	52,904	1,300	54,204
At 31 July 2007	2,521,250	4,849,428	30,904	7,401,582
Provided during the year	–	26,448	1,300	27,748
Written off	(2,521,250)	(3,050,711)	–	(5,571,961)
At 31 July 2008	–	1,825,165	32,204	1,857,369
Net book value:				
At 31 July 2008	–	9,140	–	9,140
At 31 July 2007	–	38,665	1,300	39,965

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

16. Land use rights

	The Group
	HK$
Cost:	
At 31 July 2006	30,658,997
Exchange adjustments	1,864,606
At 31 July 2007	32,523,603
Exchange adjustments	3,408,560
At 31 July 2008	35,932,163
Accumulated amortisation:	
At 31 July 2006	4,496,654
Charge for the year	612,134
Exchange adjustments	311,814
At 31 July 2007	5,420,602
Charge for the year	680,827
Exchange adjustments	605,910
At 31 July 2008	6,707,339
Carrying amount:	
At 31 July 2008	29,224,824
At 31 July 2007	27,103,001

The land use rights are valid for a period of 50 years from 1999 and situated in the PRC. At 31 July 2008, part of the land use rights of the Group with a carrying amount of approximately HK$12,063,000 (2007: HK$11,187,000) were pledged to a bank to secure the bank loans (note 26).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

17. Intangible assets – intellectual properties

	The Group
	HK$
Cost:	
At 31 July 2006	69,881,731
Exchange adjustments	422,448
At 31 July 2007	70,304,179
Exchange adjustments	772,248
At 31 July 2008	71,076,427
Accumulated amortisation and impairment:	
At 31 July 2006	66,652,945
Charge for the year	697,102
Exchange adjustments	270,209
At 31 July 2007	67,620,256
Charge for the year	676,705
Impairment for the year	429,833
Exchange adjustments	552,427
At 31 July 2008	69,279,221
Carrying amount:	
At 31 July 2008	1,797,206
At 31 July 2007	2,683,923

Intellectual properties represent traditional Chinese medicine formulae, certain protocols for herbal medicine and licences for western medicine acquired by the Group.

During the year, the Group assessed the carrying amount of intellectual properties and determined that certain Chinese Medicine formulae should be fully impaired because the market demand and production of the related medicine have been low or even nil for many years.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

18. Website development costs

	The Group HK$
Cost:	
At 31 July 2006, 2007 and 2008	26,946,020
Accumulated amortisation and impairment:	
At 31 July 2006, 2007 and 2008	(26,946,020)
Carrying amount:	
At 31 July 2007 and 2008	–

19. Interests in subsidiaries

	The Company 2008 HK$	2007 HK$
Unlisted shares, at cost	**43**	13,227,656
Amounts due from subsidiaries	**273,434,336**	354,217,479
	273,434,379	367,445,135
Less : Impairment losses	**(192,761,341)**	(258,840,231)
	80,673,038	108,604,904

Amounts due from subsidiaries are unsecured, non-interest bearing and in substance represent the Company's interests in the subsidiaries in the form of quasi-equity loans.

During the year, the Company assessed the carrying amount of its interests in subsidiaries in light of the recurring operating loss of the subsidiaries. The Company determined that it is necessary to reduce the carrying amount to the estimated net asset value of its subsidiaries. Accordingly, impairment loss of HK$192,761,341 (2007: HK$258,840,231) was recognised as at 31 July 2008.

Notes to the Financial Statements

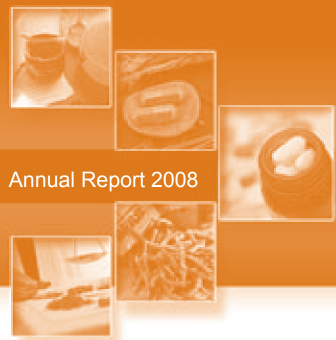
(Expressed in Hong Kong dollars)

19. Interests in subsidiaries (continued)

Particulars of the principal subsidiaries as at 31 July 2008 were as follows:

Name of subsidiary	Place of incorporation	Place of operation	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company held directly	indirectly	Principal activities
herbs N senses Health Products Limited	Hong Kong	Hong Kong	HK$2	–	100	Trading of Chinese herbal products
HnS Health Products Limited	The British Virgin Islands	Hong Kong	US$1	100	–	Trading of Chinese herbal products
GreaterChina Technology Exchange Limited	Hong Kong	Hong Kong	HK$2	–	100	Manufacture and trading of Chinese herbal products
GreaterChina Technology Capital Marketing Limited	Hong Kong	Hong Kong	HK$2	100	–	Dormant
GreaterChina Investment Limited	The British Virgin Islands	Hong Kong	US$1	100	–	Investment holding
iSolutions Development Limited	Hong Kong	Hong Kong	HK$2	100	–	Portal development
GreaterChina Biotherapeutics Company Limited	The British Virgin Islands	Hong Kong	US$1	100	–	Investment holding
Power Essence Limited	The British Virgin Islands	Hong Kong	US$1	–	100	Investment holding
Golden Unit Limited	Hong Kong	Hong Kong	HK$1,000	–	100	Investment holding
GC Investment (China) Limited	The British Virgin Islands	Hong Kong	US$1	100	–	Dormant
GreaterChina Natural Resources Limited	The British Virgin Islands	Hong Kong	US$1	100	–	Dormant
GC Resources Investment (Vietnam) Limited	The British Virgin Islands	Hong Kong	US$1	–	100	Dormant
Guangdong Richtungen Pharmaceutical Co., Ltd. ("RTG")	The People's Republic of China ("PRC")	PRC	RMB91,300,000	–	100	Manufacture and sale of pharmaceutical and healthcare products

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.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

20. Goodwill

	The Group
	HK$
Cost:	
At 31 July 2006	21,873,603
Adjustment	(21,873,603)
At 31 July 2007 and 2008	–
Amortisation and impairment:	
At 31 July 2006	4,500,000
Written back	(4,500,000)
At 31 July 2007 and 2008	–
Carrying amount:	
At 31 July 2008	–
At 31 July 2007	–

Goodwill acquired in a business combination on acquisition is allocated to the cash generating units that are expected to benefit from that business combination. Accordingly, the Group allocated the above goodwill to the western medicine products business segment resulting from the acquisition of RTG.

By a waiver of loan agreement dated 27 April 2007, the vendor agreed to waive the loan permanently and will not demand RTG for repayment of the loan in whole or in part. The waiver of loan by the vendor affected the calculation of the goodwill previously recognised by the Group as the loan payable was deemed as a contingent consideration at the date of acquisition of RTG. Accordingly, the loan waiver of RMB27,750,193 was utilised to reduce the carrying value of the goodwill of HK$17,373,603 as at the date of waiver to Nil. The remaining balance of HK$8,805,825 was included as other gains and losses in profit or loss for the year ended 31 July 2007. The vendor was China Global Gains Investment Limited which held 6.64% (2007: 6.65%) equity interest in the Company as at 31 July 2008.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

21. Investments in securities

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Held-to-maturity securities				
Unlisted debts securities at amortised cost	**780,000**	780,000	**780,000**	780,000
Less: Impairment loss	**(386,178)**	–	**(386,178)**	–
	393,822	780,000	**393,822**	780,000
Available-for-sale investments				
Unlisted investments at fair value	**194,200**	194,200	**–**	–

During the year, the Group assessed the carrying amount of its investments in held-to-maturity securities and determined it is necessary to recognise an impairment loss of HK$386,178 (2007: Nil) to reflect the estimated fair value of these securities.

22. Inventories

	The Group	
	2008	2007
	HK$	HK$
Raw materials	**1,505,854**	1,818,389
Work-in-progress	**259,602**	342,516
Finished goods	**2,008,215**	2,132,918
	3,773,671	4,293,823

The analysis of the amount of inventories recognised as an expense is as follows:

	2008	2007
	HK$	HK$
Carrying amount of inventories sold	**5,899,744**	5,311,832
Write down of inventories	**523,791**	1,746,965
	6,423,535	7,058,797

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

23. Trade receivables

	The Group	
	2008	2007
	HK$	HK$
Trade receivables	**3,373,229**	5,162,127
Less: Allowance for doubtful debts	**(1,063,184)**	(970,281)
	2,310,045	4,191,846

(i) The Group allows an average credit period of 60 to 90 days to its trade customers.

(ii) The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

	The Group	
	2008	2007
	HK$	HK$
At beginning of year	**970,281**	793,895
Provision for doubtful debts (written back)/made	**(8,323)**	117,042
Exchange difference	**101,226**	59,344
At end of year	**1,063,184**	970,281

At 31 July 2008, a provision of HK$1,063,184 (2007: HK$970,281) has been made for estimated irrecoverable amounts form the sale of goods. This provision has been determined by reference to past default experience.

(Expressed in Hong Kong dollars)

23. Trade receivables (continued)

The ageing analysis of impaired trade receivables is as follows:

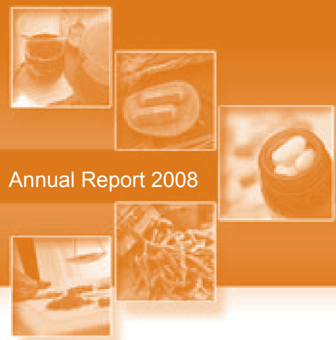
	The Group 2008 HK$	2007 HK$
0 – 60 days	**1,569,509**	1,512,896
61 – 90 days	**116,059**	527,866
Over 90 days	**624,477**	2,151,084
	2,310,045	4,191,846

(iii) The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	The Group 2008 HK$	2007 HK$
Neither past due nor impaired	**1,897,040**	1,757,076
Less than 60 days past due	**76,758**	291,059
Over 60 days but less than 90 days past due	**3,847**	156,079
Over 90 days past due	**332,400**	1,987,632
	2,310,045	4,191,846

Trade receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

24. Other receivables, deposits and prepayments

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Other receivables	**217,365**	2,689,125	**–**	135,909
Utility and other deposits	**838,174**	1,873,041	**2,500**	2,499
Prepayments	**66,791**	327,208	**64,500**	118,923
	1,122,330	4,889,374	**67,000**	257,331

25. Trade payables

As at 31 July 2008, the ageing analysis of trade payables was as follows:

	The Group	
	2008	2007
	HK$	HK$
0 – 60 days	**188,242**	227,904
61 – 90 days	**52,347**	222,754
Over 90 days	**471,679**	655,210
	712,268	1,105,868

Trade payables principally comprise amounts outstanding for trade purchases and on-going costs.

The directors consider that the carrying amount of trade payables approximates their fair value.

26. Interest-bearing bank borrowings

	The Group	
	2008	2007
	HK$	HK$
Bank loans – secured	**5,703,856**	5,162,783

The borrowings are payable as follows:

	2008	2007
	HK$	HK$
Within one year	**5,703,856**	–
In the second year	**–**	5,162,783
	5,703,856	5,162,783
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(5,703,856)**	–
Amount due for settlement after 12 months	**–**	5,162,783

The carrying amounts of the Group's borrowings as at 31 July 2008 and 2007 were all denominated in Renminbi.

(a) The bank loans are arranged at the fixed interest rate of 5.88% (2007: 5.88%) per annum.

(b) The directors consider the carrying amount of interest bearing bank borrowings approximate their fair value.

(c) The bank loans are secured by certain buildings and part of the land use rights of the Group with a total net book value of approximately HK$32,438,000 (2007: HK$30,907,000) as at 31 July 2008 (notes 15 and 16).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

27. Obligations under a finance lease

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
Amounts payable under a finance lease:				
Within one year	**194,172**	194,172	**178,561**	162,206
In the second to fifth years inclusive	**64,724**	242,715	**63,485**	227,847
	258,896	436,887	**242,046**	390,053
Less: Future finance charges	**(16,850)**	(46,834)		
Present value of lease obligations	**242,046**	390,053		
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(178,561)**	(162,206)
Amount due for settlement after 12 months			**63,485**	227,847

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 3 years. For the year ended 31 July 2008, the average effective borrowing rate was 5.5% per annum (2007: 5.5%). Interest rates are fixed at the contract date, thus exposing the Group to a fair value interest rate risk. The lease was on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under a finance lease are secured by the lessor's title to the leased asset.

(Expressed in Hong Kong dollars)

28. Deferred taxation

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

	The Group		The Company	
	2008	2007	**2008**	2007
	HK$	HK$	**HK$**	HK$
General provision for doubtful debts	**(126,000)**	81,000	**–**	–
Decelerated depreciation allowances	**71,000**	263,000	**1,000**	213,000
Tax losses	**18,672,000**	23,970,000	**4,419,000**	3,626,000
	18,617,000	24,314,000	**4,420,000**	3,839,000

At 31 July 2008, the Group had unused tax losses of approximately HK$113,165,000 (2007: HK$118,637,000) 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. Tax losses were incurred primarily by group companies in Hong Kong and can be carried forward indefinitely to offset future taxable profits of these companies. Unused tax losses of the Group exclude the tax loss of approximately HK$17,865,000 of a subsidiary which is currently in the process of de-registration.

29. Deregistration of subsidiaries

During the year, the Group deregistered three of its wholly-owned subsidiaries, GreaterChinaherbs.com Limited, iBusiness Limited and iCare Technology Limited.

The subsidiaries deregistered during the year ended 31 July 2008 had no significant impact on the turnover and results of the Group.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

30. Share capital

	2008	2007
	HK$	HK$
Authorised:		
5,000,000,000 ordinary shares of HK$0.01 each	**50,000,000**	50,000,000
Issued and fully paid:		
2,042,695,590 (2007: 2,038,903,866) ordinary shares of HK$0.01 each	**20,426,956**	20,389,039

A summary of the movements in the issued and fully paid share capital of the Company during the year is as follows:

	Number of shares	**Amount**
		HK$
Authorised:		
At 31 July 2006	2,000,000,000	20,000,000
Increase *(note (i))*	3,000,000,000	30,000,000
At 31 July 2007 and 2008	5,000,000,000	50,000,000
Issued and fully paid:		
At 31 July 2006	813,696,000	8,136,960
Open offer of share subscription *(note (ii))*	1,220,544,000	12,205,440
Exercise of share options *(note (iii))*	4,663,866	46,639
At 31 July 2007	2,038,903,866	20,389,039
Exercise of share options *(note (iv))*	3,791,724	37,917
At 31 July 2008	2,042,695,590	20,426,956

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

30. Share capital (continued)

Notes:

(i) Pursuant to an ordinary resolution passed on 14 August 2006, the authorised share capital was increased to HK$50,000,000 by the creation of an additional 3,000,000,000 ordinary shares of HK$0.01 each.

(ii) Pursuant to an ordinary resolution passed at the extraordinary general meeting on 1 September 2006, the Company issued 1,220,544,000 ordinary shares at HK$0.01each by way of an open offer at an issue price of HK$0.015 per share on the basis of three offer shares for every two existing shares held. Of the proceeds of HK$16,816,892 received, net of issuing expenses, HK$12,205,440 and HK$4,611,452 were credited to the share capital and share premium account respectively.

(iii) On 18 June 2007, options were exercised to subscribe for 4,663,866 ordinary shares in the Company at a consideration of HK$223,866 of which HK$46,639 was credited to share capital. The balance of HK$177,227 was credited to the share premium account. An amount of HK$14,676 was transferred from the share-based payment reserve to the share premium account following the exercise of the options.

(iv) On 24 June 2008, options were exercised to subscribe for 3,791,724 ordinary shares in the Company at a consideration of HK$182,003 of which HK$37,917 was credited to share capital. The balance of HK$144,086 was credited to the share premium account. An amount of HK$11,931 was transferred from the share-based payment reserve to the share premium account following the exercise of the options.

31. Share-based payment transactions

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 entitled 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 to terminate 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 and 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

31. Share-based payment transactions (continued)

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

(Expressed in Hong Kong dollars)

31. Share-based payment transactions (continued)

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

Movements of share options of the Company during the year are as follows:

	Number of Share Options									
	Outstanding as at 1.8.2006	Adjusted by open offer	Granted during 2007	Exercised during 2007	Cancelled during 2007	Outstanding as at 31.7.2007	Granted during 2008 *(note c)*	Exercised during 2008	Cancelled during 2008	Outstanding as at 31.7.2008
Category:										
Directors										
Cheng Kit Yin, Kelly	75,808,000	42,044,774	–	–	–	117,852,774	20,000,000	–	(117,852,774)	20,000,000
Chung Wai Han	–	–	–	–	–	–	20,000,000	–	–	20,000,000
Kuo Kwan	3,000,000	1,663,866	–	(4,663,866)	–	–	5,000,000	–	–	5,000,000
Lam Wing Ah	–	–	–	–	–	–	20,000,000	–	–	20,000,000
Lau Lap Ping	1,813,000	1,005,530	–	–	–	2,818,530	–	(1,263,908)	(1,554,622)	–
Leung King Yue, Alex	–	–	–	–	–	–	20,000,000	–	–	20,000,000
Leong Chi Wai	–	–	–	–	–	–	20,000,000	–	–	20,000,000
Ma Man Pong	–	–	–	–	–	–	20,000,000	–	–	20,000,000
Man Kong Yui	813,000	450,908	–	–	–	1,263,908	–	(1,263,908)	–	–
Yeung Chi Hung	813,000	450,908	–	–	–	1,263,908	–	(1,263,908)	–	–
	82,247,000	45,615,986	–	(4,663,866)	–	123,199,120	125,000,000	(3,791,724)	(119,407,396)	125,000,000
Consultant *(note a)*	–	–	10,000,000	–	–	10,000,000	–	–	(10,000,000)	–
Employees										
(in aggregate) *(note b)*	3,000,000	1,663,866	1,000,000	–	(2,487,396)	3,176,470	1,000,000	–	(3,176,470)	1,000,000
	85,247,000	47,279,852	11,000,000	(4,663,866)	(2,487,396)	136,375,590	126,000,000	(3,791,724)	(132,583,866)	126,000,000
Weighted average exercise price	HK$0.2036	HK$0.0006	HK$0.1854	HK$0.0480	HK$0.0896	HK$0.1391	HK$0.0920	HK$0.0480	HK$0.1418	HK$0.0920

Notes:

(a) Pursuant to the agreement dated 15 June 2007, the Company granted 10,000,000 options to an independent consultant at the exercise price of HK$0.189 each. The consultant could only exercise these options upon successfully introducing projects to the Group. Due to the failure of the independent consultant to introduce projects to the Group, all the options granted to him were cancelled during the year.

(b) On 13 July 2007, the Company granted 1,000,000 options to an employee of the Group at an exercise price of HK$0.149 each of which 500,000 shares were exercisable from 13 July 2007 to 12 July 2017 and 500,000 shares were exercisable from 1 July 2008 to 12 July 2017. The options were cancelled following the resignation of that employee during the year.

(c) On 24 July 2008, the Company granted 126,000,000 options to the directors and an employee of the Group at the exercise price of HK$0.092 each for a period of ten years from the date of grant.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

31. Share-based payment transactions (continued)

The fair value of the options granted during the year was determined by using Black-Scholes-Merton Option Pricing Model. The key valuation parameters as adopted in assessing the fair value of the share options included the exercise price, risk free rate, nature of the share options, expect option period, volatility and expected dividend yield are as follows:

	2008	2007
Weighted average share price	**HK$0.035**	HK$0.137
Exercise price	**HK$0.092**	HK$0.149
Expected volatility	**98.70%**	73.97%
Expected life	**1 year**	4.7 years
Risk-free rate	**1.83%**	4.63%
Expected dividend yield	**0%**	0%

The valuation assumed that there will be no substantial fluctuation in the economic outlook and specific industry outlook affecting the continuity of the Group's business and the price of the underlying securities. It also assumed that there will be no material change in the existing political, legal, technological, fiscal or economic condition which may significantly affect the continuity of the Group's business.

The Group recognised equity-settled share-based payment of HK$4,525,662 (2007: HK$41,000) in profit or loss during the year.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

32. Reserves

The Company

	Share premium account HK$	Share-based payment reserve HK$	Accumulated losses HK$	Total HK$
Balance at 31 July 2006	394,291,209	71,125	(292,978,742)	101,383,592
Recognition of equity-settled share-based payment	–	41,000	–	41,000
Premium received on open offer of share subscription	4,611,452	–	–	4,611,452
Issue of new shares on exercise of share options	191,903	(14,676)	–	177,227
Loss for the year	–	–	(15,767,665)	(15,767,665)
Balance at 31 July 2007	399,094,564	97,449	(308,746,407)	90,445,606
Recognition of equity-settled share-based payment	–	4,525,662	–	4,525,662
Cancellation of share options	–	(85,518)	85,518	–
Issue of new shares on exercise of share options	156,017	(11,931)	–	144,086
Loss for the year	–	–	(39,447,415)	(39,447,415)
Balance at 31 July 2008	399,250,581	4,525,662	(348,108,304)	55,667,939

Under the Companies Law (1998 Revised) of the Cayman Islands, the share premium and reserves of the Company are available for distributions or payment of dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business.

In accordance with the Company's Articles of Association, the Company may make a distribution out of share premium and reserves subject to the provision of the Companies Law (1998 Revision) of the Cayman Islands.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

33. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties, other than those disclosed elsewhere in these financial statements, are disclosed below.

(a) Due to ultimate holding company at 31 July 2008 included the principal loan of HK$1,000,000 and accrued interest of HK$2,445. On 14 July 2008, the Company signed a loan agreement with Blue Bright Limited ("Blue Bright"), whereby Blue Bright would grant a loan to the Company for the period from 14 July 2008 to 13 July 2009 with a maximum principal sum of HK$10 million. The loan bears simple interest at the HSBC prime rate on the principal sum. If the loan interest cannot be paid at the month end, the new principal sum will be the original principal plus the overdue interest. The principal loan sum shall be repaid at the end of the loan period and the interest payment shall be settled at the end of each month on a monthly basis.

(b) Director's loan

The loan was from Cheng Kit Yin, Kelly and totalled HK$2,166,435 at 31 July 2008 including accrued interest of HK$18,355. On 30 May 2008 the Company signed a loan agreement with Cheng Kit Yin, Kelly, whereby she would grant a loan to the Company for the period from 29 May 2008 to 29 May 2009 with the maximum principal sum of HK$2.2 million. The loan bears simple interest at the HSBC prime rate on the principal sum. If the loan interest cannot be paid at the month end, the new principal sum will be the original principal plus the overdue interest. The principal loan shall be repaid at the end of the loan period and the interest payment shall be settled at the end of each month on a monthly basis.

(c) Members of key management during the year comprised only of the directors whose remuneration is set out in note 9 to the financial statements.

34. Capital Commitments

The Group did not have any capital commitments as at 31 July 2008 and 2007.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

35. Commitments

The Group leases its office premises under operating lease arrangements, with leases negotiated for an average term of three years.

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

	The Group	
	2008	2007
	HK$	HK$
Within one year	**1,709,840**	1,709,840
In the second to fifth years, inclusive	**872,470**	2,487,040
	2,582,310	4,196,880

36. Contingent liabilities

During the year, Court proceedings started on the case brought by an individual who alleged that he had been assigned the rights to receive the outstanding payments of two PRC contractors which had provided services to Guangdong Richtungen Pharmaceutical Co., Ltd ("RTG"), the Group's subsidiary in the PRC. The individual claimed unpaid construction costs of approximately RMB11,971,000 for the construction of staff quarters and other installation work carried out by the two PRC contractors for RTG in or around 2000.

Notwithstanding the PRC Court's first ruling in May 2008 found that RTG is liable for the unpaid costs of approximately RMB11,971,000 plus interest of approximately RMB3,693,000, the directors of the Company are of the strong view that the Court ruling against RTG is flawed as the individual who brought the action against RTG is not even a party to the contracts for the provision of the construction work concerned. The directors of the Company are also of the strong view that as the contractors did not initiate any claim for the unpaid construction costs within the valid time period, they had lost their rights to recover any unpaid amounts from RTG and any subsequent claims against RTG would fail due to limitation of actions. The directors of the Company have continued to deny liability and instructed lawyers to defend RTG by appealing against the Court's first ruling. As at the date of the approval of these financial statements, the outcoming of the hearing of the appeal is pending.

Based on legal advice received to date, RTG has a good chance to succeed in the appeal. The lawyers who had acted for RTG in the first hearing and also the lawyers who are now acting for RTG in the appeal also pointed out that even if RTG loses the appeal, the Group has the right to recover the payment to the individual as ruled by the Court under the Sale and Purchase Agreement made between GreaterChina Investment Limited (an investment company within the Group) and the former shareholder of RTG dated 5 November 2002.

On the basis of the above and after due and careful consideration, the directors of the Company have come to the view that no provision is required for this legal claim in accordance with the Group's accounting policy set out in Note 3(q) to the financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

37. Capital risk management

The Group's objective of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings and obligations under a finance lease) less cash and cash equivalents. Capital comprises total debt and all components of equity.

In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debts.

The net debt-to-capital ratio at 31 July 2008 and 2007 was as follows:

	The Group	
	2008	2007
	HK$	HK$
Interest-bearing loans *(note 26)*	**5,703,856**	5,162,753
Obligations under a finance lease *(note 27)*	**242,046**	390,053
Director's loan	**2,166,435**	–
Due to ultimate holding company	**977,472**	–
Less: Cash and cash equivalents	**(230,347)**	(4,383,822)
Net debt	**8,859,462**	1,168,984
Equity	**75,400,905**	94,568,862
Capital	**84,260,367**	95,737,846
Net debt-to-capital ratio	**10.51%**	1.22%

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

38. Financial risk management

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The main risks arising from the Groups' financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivable. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a concentration of credit risk as 21% (2007: 20%) and 78% (2007: 34%) of net trade receivables were due from the Group's largest customer and the five largest customers respectively.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

38. Financial risk management (continued)

(b) Liquidity risk (continued)

The following table details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay.

	Carrying amount HK$	Total contractual undiscounted cash flow HK$	Within 3 months or on demand HK$	More than 3 months but less than 6 months HK$	More than 6 months but less than 9 months HK$	More than 9 months but less than 1 year HK$	More than 1 year HK$
2008							
Bank borrowings	**5,703,856**	**5,797,139**	**3,510,745**	**2,286,394**	**–**	**–**	**–**
Obligations under a finance lease	**242,046**	**258,896**	**48,543**	**48,543**	**48,543**	**48,543**	**64,724**
Director's loan	**2,166,435**	**2,242,059**	**28,194**	**28,194**	**28,194**	**28,194**	**2,129,283**
Due to ultimate holding company	**977,472**	**1,049,995**	**13,125**	**13,125**	**13,125**	**13,125**	**997,495**
Trade payables	**712,268**	**712,268**	**712,268**	**–**	**–**	**–**	**–**
	9,802,077	**10,060,357**	**4,312,875**	**2,376,256**	**89,862**	**89,862**	**3,191,502**
2007							
Bank borrowings	5,162,783	5,611,303	91,071	91,071	91,071	91,071	5,247,019
Obligations under a finance leases	390,053	436,887	48,543	48,543	48,543	48,543	242,715
Trade payables	1,105,868	1,105,868	1,105,868	–	–	–	–
	6,658,704	7,154,058	1,245,482	139,614	139,614	139,614	5,489,734

38. Financial risk management (continued)

(c) *Interest rate risk*

The Group's interest rate risk arises primarily from borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk respectively.

The Group has no material long-term financial assets or liabilities and is not exposed to fair value interest rate risk. The Group also has no cash flow interest rate risk as the amount of borrowings which bear floating interest rate is not significant.

(d) *Currency risk*

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars ("US$") and Renminbi ("RMB").

All the Group's borrowings are denominated in the functional currency of the entity taking out the loan or, in the case of group entities whose functional currency is in either Hong Kong dollars, US$ or RMB. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

The following table details the Group's exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	The Group	
	2008	2007
	Assets	Assets
US$	**52,143**	409,505
RMB	**9,185,077**	8,369,882

The Group mainly operates in Hong Kong and Mainland China with most of the transactions are settled in HK$, US$ and RMB and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

38. Financial risk management (continued)

(d) Currency risk (continued)

The following table indicates the approximate change in the Group's loss after taxation in response to reasonably possible changes in the foreign exchange rates to which the Group had significant exposure at the balance sheet date. The sensitivity analysis represents the balances between Group companies where the denomination of the balance is in a currency other than the functional currencies of the lender or the borrower. A positive number below indicates a decrease in loss where the HK$ weakens against the relevant currency. For a strengthening of the HK$ against the relevant currency, there would be an equal and opposite impact on the loss, and the balances below would be negative.

	The Group			
	2008		2007	
	Weakening in HK$	**Effect on loss for the year and accumulated losses HK$**	Weakening in HK$	Effect on loss for the year and accumulated losses HK$
RMB	**5%**	**523,904**	5%	432,119

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the group entities; exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between HK$ and US$ will not be materially affected by any changes in movement in the value of US$ against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' loss for the year end measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date of presentation purposes.

(Expressed in Hong Kong dollars)

38. Financial risk management (continued)

(e) *Fair value estimation*

All financial instruments are carried at amounts not materially different from their fair values as at 31 July 2008 and 2007.

Fair value of securities is based on quoted market prices at the balance sheet date without any deduction from transaction costs. Fair values for unquoted equity investments are estimated using the applicable price/earning ratios for similar listed companies adjusted for the specific circumstances of the issuer or stated at cost less impairment when it is impractical to obtain such information.

The fair value of interest-bearing loans and borrowings is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

39. Summary of financial assets and financial liabilities by category

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 July 2008 and 2007 may be categorised as follows:

	The Group	
	2008	2007
	HK$	HK$
Financial assets		
Held-to-maturity investments	**393,822**	780,000
Loans and receivables (including cash and cash equivalents)	**3,595,931**	13,137,834
Available-for-sale financial assets	**194,200**	194,200
Financial liabilities		
Financial liabilities measured at amortised cost	**14,261,107**	10,621,569

40. Non-cash transactions

During the year ended 31 July 2007, additions to motor vehicle of HK$500,000 was financed by a finance lease.

41. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

42. Approval of financial statements

The financial statements were approved by the board of directors on 27 October 2008.

Financial Summary

For the year ended 31 July 2008
(Expressed in Hong Kong dollars)

	(Note 1)			*(Note 2)*	
	2004	2005	2006	2007	**2008**
	HK$	HK$	HK$	HK$	**HK$**
Turnover	4,180,437	8,323,928	13,522,758	18,622,377	**11,798,988**
Cost of sales	(2,007,280)	(5,031,224)	(8,025,845)	(5,311,832)	**(5,899,744)**
Gross profit	2,173,157	3,292,704	5,496,913	13,310,545	**5,899,244**
Other revenue	9,107,721	1,283,042	669,542	834,917	**73,147**
Other (losses)/gains	–	493,547	150,830	12,937,532	**(5,544,883)**
Selling, administrative and other operating expenses	(24,729,956)	(25,478,496)	(25,208,560)	(38,827,944)	**(30,509,645)**
Loss on disposal of long term investments	(23,491,178)	–	–	–	**–**
Prepayments written off	(4,598,750)	–	–	–	**–**
Loss from operation	(41,539,006)	(20,409,203)	(18,891,275)	(11,744,950)	**(30,082,137)**
Finance costs	(962,510)	(390,661)	(1,069,589)	(439,661)	**(438,504)**
Share of loss of a jointly controlled entity	(8,852,002)	(284,616)	–	–	**–**
Loss before taxation	(51,353,518)	(21,084,480)	(19,960,864)	(12,184,611)	**(30,520,641)**
Tax	–	–	–	–	**–**
Loss for the year	(51,353,518)	(21,084,480)	(19,960,864)	(12,184,611)	**(30,520,641)**
Attributable to:					
Equity holders of the Company	(51,353,518)	(19,586,171)	(18,457,226)	(11,893,389)	**(30,520,641)**
Minority interests	–	(1,498,309)	(1,503,638)	(291,222)	**–**
	(51,353,518)	(21,084,480)	(19,960,864)	(12,184,611)	**(30,520,641)**
ASSETS AND LIABILITIES					
Total assets	191,852,162	166,294,774	128,560,752	106,116,855	**91,060,394**
Total liabilities	(70,844,626)	(53,169,986)	(39,356,416)	(11,547,993)	**(15,659,489)**
	121,007,536	113,124,788	89,204,336	94,568,862	**75,400,905**

Notes:

1. The consolidated results for three years ended 31 July 2006 and the assets and liabilities as at 31 July 2004, 2005 and 2006 of the Group have been extracted from the Company's published annual reports.

2. The consolidated results for the two years ended 31 July 2008 and the assets and liabilities as at 31 July 2007 and 2008 of the Group are set out on pages 28 and 29, respectively.