



# **GREATERCHINA TECHNOLOGY GROUP LIMITED**

**大中華科技（集團）有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8032)**

## **ANNOUNCEMENT FOR THE AUDITED RESULTS FOR THE YEAR ENDED 31 JULY 2004**

### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

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

## RESULTS

The board of Directors (the “Board”) would like to announce the audited consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 July 2004 together with the comparative figures for the corresponding year in 2003 as follows:

### Consolidated Income Statement

	<i>Notes</i>	<b>2004 HK\$</b>	<b>2003 HK\$</b>
<b>TURNOVER</b>	<b>5</b>	<b>4,180,437</b>	8,670,341
Cost of sales		<u>(2,007,280)</u>	<u>(12,456,567)</u>
Gross profit/(loss)		<b>2,173,157</b>	(3,786,226)
Other revenue and gains	<b>5</b>	<b>9,107,721</b>	10,542,940
Administrative and other operating expenses		<b>(24,729,956)</b>	(58,281,165)
Loss on disposal of long term investments		<b>(23,491,178)</b>	—
Impairment losses		—	(58,542,585)
Prepayments written off		<u><b>(4,598,750)</b></u>	<u>(12,500,000)</u>
<b>LOSS FROM OPERATING ACTIVITIES</b>	<b>6</b>	<b>(41,539,006)</b>	(122,567,036)
Finance costs	<b>7</b>	<b>(962,510)</b>	(1,583,071)
Share of loss of a jointly controlled entity	<b>8</b>	<u><b>(8,852,002)</b></u>	<u>(5,075,667)</u>
<b>LOSS BEFORE TAXATION</b>		<b>(51,353,518)</b>	(129,225,774)
Taxation		<u>—</u>	<u>—</u>
<b>NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	<b>11</b>	<u><b>(51,353,518)</b></u>	<u>(129,225,774)</u>
<b>LOSS PER SHARE</b>	<b>11</b>		
Basic		<u><b>6.3 cents</b></u>	<u>17.1 cents</u>

*NOTES:*

**1. GENERAL**

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

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

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

**2. BASIC OF PREPARATION OF FINANCIAL STATEMENTS**

The financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of equity investments, which are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis.

**3. IMPACT OF REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")**

In the current year, the Group has adopted revised SSAP 12 "Income Taxes" issued by the Hong Kong Institute of Certified Public Accountants.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

Under the revised SSAP 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred taxation is provided for on temporary differences arising on investments in subsidiaries, associated companies and joint, ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively. The adoption of revised SSAP 12 has had no material impact on the results for the current and prior accounting periods.

**4. SEGMENT INFORMATION**

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

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

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

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.

**2004**

	<b>Herbal products HK\$</b>	<b>Advisory services HK\$</b>	<b>Advertising services HK\$</b>	<b>Consolidated HK\$</b>
Segment revenue				
Turnover	<u>3,085,760</u>	<u>1,094,677</u>	<u>–</u>	<u>4,180,437</u>
Segment results	<u>(6,373,957)</u>	<u>(1,621,089)</u>	<u>–</u>	<u>(7,995,046)</u>
Unallocated corporate expenses				(28,945,210)
Impairment losses and prepayments written off				<u>(4,598,750)</u>
Loss from operating activities				(41,539,006)
Finance costs				(962,510)
Share of loss of a jointly controlled entity				<u>(8,852,002)</u>
Loss before taxation				(51,353,518)
Taxation				<u>–</u>
Net loss from ordinary activities attributable to shareholders				<u>(51,353,518)</u>
Segment assets	<u>10,457,901</u>	<u>2,949,254</u>	<u>–</u>	13,407,155
Unallocated assets				<u>178,445,007</u>
Total assets				<u>191,852,162</u>
Segment liabilities	<u>10,584,688</u>	<u>406,532</u>	<u>–</u>	10,991,220
Unallocated liabilities				<u>59,853,406</u>
Total liabilities				<u>70,844,626</u>
Other segment information:				
Additions to fixed assets	–	–	–	–
Additions to intangible assets	–	–	–	–
Depreciation	671,647	–	–	671,647
Amortisation of website development costs	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

2003

	Herbal products <i>HK\$</i>	Advisory services <i>HK\$</i>	Advertising services <i>HK\$</i>	Consolidated <i>HK\$</i>
Segment revenue				
Turnover	<u>7,367,493</u>	<u>1,219,988</u>	<u>82,860</u>	<u>8,670,341</u>
Segment results	<u>(28,110,070)</u>	<u>302,924</u>	<u>(4,966,449)</u>	<u>(32,773,595)</u>
Unallocated corporate expenses				(18,750,856)
Impairment losses and prepayments written off				<u>(71,042,585)</u>
Loss from operating activities				(122,567,036)
Finance costs				(1,583,071)
Share of loss of a jointly Controlled entity				<u>(5,075,667)</u>
Loss before taxation				(129,225,774)
Taxation				<u>—</u>
Net loss from ordinary activities attributable to shareholders				<u>(129,225,774)</u>
Segment assets	<u>7,867,019</u>	<u>1,464,158</u>	<u>4,598,750</u>	13,929,927
Unallocated assets				<u>200,231,544</u>
Total assets				<u>214,161,471</u>
Segment liabilities	<u>5,793,055</u>	<u>72,890</u>	<u>19,863,599</u>	25,729,544
Unallocated liabilities				<u>47,510,873</u>
Total liabilities				<u>73,240,417</u>
Other segment information:				
Additions to fixed assets	645,900	—	—	645,900
Additions to intangible assets	5,435,586	—	—	5,435,586
Depreciation	491,364	—	—	491,364
Amortisation of website development costs	—	—	377,987	377,987
Amortisation of intangible assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

**(b) Geographical segments**

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

	<b>Turnover</b>		<b>Loss from operating activities</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>
By geographical market:				
Hong Kong	<b>4,180,437</b>	3,688,341	<b>(13,449,078)</b>	(48,433,464)
The United States of America ("USA")	<u>–</u>	<u>4,982,000</u>	<u>–</u>	<u>(1,012,000)</u>
	<b><u>4,180,437</u></b>	<b><u>8,670,341</u></b>	<b><u>(13,449,078)</u></b>	<b><u>(49,445,464)</u></b>
Impairment losses and prepayments written off			<b>(4,598,750)</b>	(71,042,585)
Loss on disposal of long term investments			<b>(23,491,178)</b>	–
Unallocated corporate expenses			<u>–</u>	<u>(2,078,987)</u>
Loss from operating activities			<b><u>(41,539,006)</u></b>	<b><u>(122,567,036)</u></b>

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

**5. TURNOVER, OTHER REVENUE AND GAINS**

	<b>2004</b>	2003
	<b>HK\$</b>	<b>HK\$</b>
<b>Turnover</b>		
Sale	<b>3,085,760</b>	7,367,493
Rendering of services	<b><u>1,094,677</u></b>	<u>1,302,848</u>
	<b><u>4,180,437</u></b>	<b><u>8,670,341</u></b>
<b>Other revenue</b>		
Interest income	<b>1,167,368</b>	3,307,953
Income from the use of trademark	<b>2,708,333</b>	4,166,667
Dividend income	<b>748,438</b>	2,202,693
Gain on disposal of short term investments	<b>3,024,597</b>	–
Others	<b><u>403,652</u></b>	<u>865,627</u>
	<b><u>8,052,388</u></b>	<b><u>10,542,940</u></b>
<b>Gains</b>		
Gain on disposal of subsidiaries	<b><u>1,055,333</u></b>	<u>–</u>
Other revenue and gains	<b><u>9,107,721</u></b>	<b><u>10,542,940</u></b>

## 6. LOSS FROM OPERATING ACTIVITIES

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

	2004 HK\$	2003 HK\$
Depreciation	1,437,536	2,612,738
Amortisation of intangible assets	–	3,033,538
Amortisation of website development costs	–	137,450
Amortisation of goodwill on acquisition of a jointly controlled entity	1,255,901	732,609
Research and development costs	<u>2,650,606</u>	<u>6,532,987</u>
Minimum lease payments under operating leases in respect of land and buildings	1,316,042	3,056,886
Auditors' remuneration	500,000	1,600,000
Staff costs including directors' remuneration:		
Salaries and other allowances	6,740,185	8,842,638
Pension scheme contributions	139,590	128,647
	<u>6,879,775</u>	<u>8,971,285</u>
Impairment loss on intellectual properties	–	58,302,048
Impairment loss on website development costs	–	240,537
	<u>–</u>	<u>58,542,585</u>
Unrealised holding loss on short term investments	<u>3,570</u>	<u>456,738</u>

## 7. FINANCE COSTS

	2004 HK\$	2003 HK\$
Interest on bank loans and overdrafts wholly repayable within five years	<u>962,510</u>	<u>1,583,071</u>

## 8. SHARE OF LOSS OF A JOINTLY CONTROLLED ENTITY

Details of the operating results of a jointly controlled entity based on the unaudited financial statements are as follows:

	2004 HK\$	2003 HK\$
Operating results of the year ended 31 July		
Turnover	<u>11,907,217</u>	<u>7,641,953</u>
Loss from ordinary activities before taxation	<u>(11,065,003)</u>	<u>(6,344,584)</u>
Loss from ordinary activities before taxation attributable to the Group	<u>(8,852,002)</u>	<u>(5,075,667)</u>

## 9. TAXATION

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

	<b>2004</b> <b>HK\$</b>	<b>2003</b> <b>HK\$</b>
Loss before taxation	<b><u>(51,353,518)</u></b>	<b><u>(129,225,774)</u></b>
Taxation calculated at Hong Kong profits tax rate of 17.5%	<b>(8,986,866)</b>	(22,614,510)
Tax effect of expenses not deductible for taxation purposes	<b>6,038,381</b>	15,184,224
Tax effect of non-taxation items	<b>(915,642)</b>	(1,408,577)
Deferred tax benefits arising from tax losses and others not recognised	<b><u>3,864,127</u></b>	<b><u>8,838,863</u></b>
Taxation	<b><u>—</u></b>	<b><u>—</u></b>

- (c) Details of unprovided deferred tax during the year are set out in note 14 to the financial statements.

## 10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 July 2004 dealt with in the financial statements of the Company was HK\$27,619,091 (2003: HK\$109,853,803).

## 11. LOSS PER SHARE

	<b>2004</b> <b>HK\$</b>	<b>2003</b> <b>HK\$</b>
Loss:		
Net loss from ordinary activities attributable to shareholders used in basic and diluted loss per share calculation	<b><u>51,353,518</u></b>	<b><u>129,225,774</u></b>
Shares:		
Weighted average number of ordinary shares used in the basic loss per share calculation	<b><u>813,696,000</u></b>	<b><u>754,247,890</u></b>

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

## 12. DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 July 2004 (2003: Nil).



### 13. RESERVES

	Share premium account HK\$	Long term investment revaluation reserves HK\$	Accumulated losses HK\$	Total HK\$
Balance at 1 August 2002	361,065,289	(25,752,000)	(100,841,341)	234,471,948
Issue of shares	33,225,920	–	–	33,225,920
Deficit on revaluation	–	(5,688,000)	–	(5,688,000)
Net loss for the year	–	–	(129,225,774)	(129,225,774)
Balance at 31 July 2003	394,291,209	(31,440,000)	(230,067,115)	132,784,094
Realised on disposal	–	31,440,000	–	31,440,000
Net loss for the year	–	–	(51,353,518)	(51,353,518)
<b>Balance at 31 July 2004</b>	<b>394,291,209</b>	<b>–</b>	<b>(281,420,633)</b>	<b>112,870,576</b>
Reserves retained by:				
Company and subsidiaries	394,291,209	–	(267,492,963)	126,798,246
Jointly controlled entity	–	–	(13,927,670)	(13,927,670)
<b>31 July 2004</b>	<b>394,291,209</b>	<b>–</b>	<b>(281,420,633)</b>	<b>112,870,576</b>
Company and subsidiaries	394,291,209	(31,440,000)	(224,991,448)	137,859,761
Jointly controlled entity	–	–	(5,075,667)	(5,075,667)
31 July 2003	394,291,209	(31,440,000)	(230,067,115)	132,784,094

### 14. DEFERRED TAXATION

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

	2004 HK\$	2003 HK\$
General and bad debt allowances	87,500	87,500
Accelerated depreciation allowances	(31,000)	(445,500)
Tax Losses	28,168,500	24,054,000
	<b>28,225,000</b>	<b>23,696,000</b>

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

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

	<b>2004</b> <b>HK\$</b>	2003 HK\$
General and bad debt allowances	–	87,500
Accelerated depreciation allowances	<b>414,500</b>	(261,500)
Tax losses arising	<b>4,114,500</b>	3,190,000
	<b><u>4,529,000</u></b>	<b><u>3,016,000</u></b>

## FINANCIAL REVIEW

### Segment Information

For the year ended 31 July 2004, the Group recorded a total revenue of HK\$13.3 million, of which HK\$3.1 million was contributed from the Group's core business of sales of nutraceutical Chinese herbal products and related services, HK\$1.1 million from advisory and consultation services and HK\$9.1 million from interest income and other sundries. For the comparative figures in the previous financial year, the Group earned a total revenue of HK\$19.2 million, of which HK\$7.4 million was generated from the Group's core business of sales of nutraceutical Chinese herbal products and related services, HK\$1.2 million arose from portal development and information technology advisory and HK\$10.5 million arose from interest income and other sundries.

For the year under review, the overall revenue of the Group dropped by 30.7% because of the dismal economic conditions in the first half of the financial year 2004 following the outbreak of Severe Acute Respiratory Syndrome ("SARS"). Although the market started to recover in the latter half of the financial year 2004, considerable amount of time was required for the consumers to regain confidence. The hesitant responses from the market had unquestionably affected the performance of the Group including the Group's core business of sales of nutraceutical Chinese herbal products. However, the Group's general and administrative expenses were decreased by 57.6% to HK\$24.7 million under the Group's tight cost control policy. The loss attributable to shareholders was also reduced by 60.3% to HK\$51.4 million for the year ended 31 July 2004 as compared to the loss attributable to shareholders of HK\$129.2 million for the year ended 31 July 2003.

### Other Financial Information

On 9 December 2003, iCare Technology Limited ("iCare"), a wholly-owned subsidiary of the Company, entered into a share transfer agreement with a third party, whereby iCare disposed of its 60% interest in a subsidiary, Weston Investment Limited, for a cash consideration of HK\$0.3 million. The principal asset of Weston Investment Limited is its 75% interest in Beijing Weston Biological-technology Co., Limited. Weston Investment Limited had a deficiency in net assets of approximately HK\$0.8 million at the date of disposal. The disposal was completed on 13 December 2003. Except for the disposal of iCare, there was no significant investment held by the Group nor material acquisitions and disposals of subsidiaries and affiliated companies during the year.

The current ratio of the Group was 1.6 as at the year end compared to 1.2 as at 31 July 2003. The gearing ratio, defined as the ratio of total borrowings to total assets, was 34.2% as compared to 29.5% as at 31 July 2003. The Group's borrowings mainly comprise short term loan and overdrafts which amounted to approximately HK\$65.5 million (2003: HK\$63.2 million) as at the year end and

are wholly secured by bank deposits and investments in securities. The Group therefore has effectively no outstanding debts or exposure to its bankers given that the Group's cash deposits and investments in securities held at its banks exceed the amount of its bank borrowings. In view of the bank deposits and the credit facilities granted and the fact that the Group has no non-current liabilities for the year, the Directors consider the Group is in a healthy liquidity position.

Major currencies used for the Group's transactions were Hong Kong Dollars, Renminbi and US Dollars. As Hong Kong Dollars are pegged to the US Dollars and the fiscal policy of the PRC government in relation to Renminbi is stable throughout the years, there was no significant currency exposure of the Group. Moreover, as the interest charges on the Group's borrowings were based on the interest rates in respect of the Company's deposits, the Group had no significant interest exposure.

As at the year end, the Group has operating lease commitments for various offices of the Group amounting to approximately HK\$2.2 million. Other than the aforementioned, there were no other significant capital commitments of the Group as at the year end.

The Group employed 11 full time employees as at 31 July 2004 (2003:12). 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\$6,879,775 (2003: HK\$8,971,285).

Overall, the net asset value of the Group was approximately HK\$121.0 million, equivalent to approximately HK\$0.15 per share.

## **QUALIFIED AUDITORS' REPORT**

The auditors' report on the annual accounts of the Group for the year ended 31 July 2004 has been qualified. Details of which are reproduced as follows:

### **Basis of opinion**

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

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

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

1. *Scope limitation – opening inventory*

As explained in the report of the auditors for the year ended 31 July 2003, we were appointed auditors subsequent to 31 July 2003 and accordingly we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the quantities and condition of the inventory as at 31 July 2003. Any adjustment to the opening inventory may have a consequential significant effect on the net loss for the year ended 31 July 2004.

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

The consolidated financial statements incorporated the unaudited management accounts of a subsidiary disposed of on 9 December 2003 up to the date of disposal. Management represented that the subsidiary was dormant with no material transactions during the period. The subsidiary had not prepared any financial statements subsequent to 31 July 2001. In respect of the year ended 31 July 2003, the auditors could not express an opinion as to whether or not other payables and accruals amounting to HK\$785,000 included in the consolidated balance sheet as at 31 July 2003 were fairly stated. We are also unable to carry out alternative procedures to satisfy ourselves that the gain on disposal of the subsidiary of approximately HK\$1,055,000 have been fairly stated in the consolidated income statement for the year.

3. *Scope limitations – deposit paid for the construction of a pharmaceutical plant in the PRC and amounts due from subsidiaries*

Prepayments, deposits and other receivables in the consolidated balance sheet as at 31 July 2004 included a deposit of HK\$15,630,000 paid to a contractor for the construction of pharmaceutical production facilities in the PRC. The deposit represented approximately 98% of the total contracted sum of RMB17,000,000, which was paid in advance of the specified progress payment terms in the contract. Although construction work on the production facilities has commenced, the completion of the work will depend on the granting of the relevant Good Manufacturing Practice (“GMP”) certificates by the PRC government. There is no information available to indicate the stage of completion of the work performed, if and when the GMP certificates will be granted or the fair value of the pharmaceutical production facilities as and when it is fully constructed. At this stage, there are no practicable audit procedures that we could adopt to ascertain the recoverable amount of the above deposit paid in advance.

The subsidiary which recorded the above deposit in its balance sheet owed the Company approximately HK\$17,300,000 and had a net deficit of approximately HK\$1,600,000 as at 31 July 2004. Although the Company had provided against the net deficit of the subsidiary, as a result of the scope limitations detailed in the above paragraph, we were unable to assess whether or not the provision made by the Company in respect of this subsidiary is adequate.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraphs 1 to 3 above. Any adjustments in respect of the foregoing matters to the above would affect the net assets of the Group and the Company as at 31 July 2004 or the loss and cash flows of the Group for the year then ended or the related disclosures thereof in these financial statements.

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

### **Qualified opinion arising from limitation of audit scope**

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the recoverable amount of the deposit paid for the construction of a pharmaceutical plant in the PRC, in our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 July 2004. Except for the effects of such adjustments, if any, as might have been determined to be necessary had a physical count of the inventories as at 1 August 2003 been carried out and the financial position of the subsidiary disposed of on 9 December 2003 be ascertained, in our opinion, the financial statements give a true and fair view of the loss and cash flows of the Group for the year then ended. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work referred to above:

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

### **BUSINESS REVIEW**

The Group is currently engaged in the research and development, manufacturing, marketing and distribution of a new line of traditional Chinese medicine (“TCM”), Chinese herbs, western medicine and healthcare products.

During the year ended 31 July 2004, the Company has achieved the following objectives:

#### ***RESEARCH & PRODUCT DEVELOPMENT:***

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

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

Collaboration with the Chinese University of Hong Kong, Chinese Medicinal Fungal (CMF) Proteomics Laboratory in the Study of Anti-Tumor Activities of HERBSnSENSES™ Cordyceps Polysaccharides Platinum;

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

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

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

#### *OPERATION OF A PHARMACEUTICAL MANUFACTURING PLANT:*

Continued business integration of a pharmaceutical manufacturing plant and distribution of western medicine in the PRC; and

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

#### *DISTRIBUTION OF HERBAL PRODUCT:*

Continued the brand-building of HERBSnSENSES™ via promotional activities such as holding seminars, distribution of newsletters and advertising via newspaper and magazines;

Promotion of membership scheme and successfully recruited 8,000 members during the year;

Marketing and distribution of HERBSnSENSES™ Cordyceps via our websites [www.herbsnsenses.com](http://www.herbsnsenses.com), [www.sensesshop.com](http://www.sensesshop.com) and expanding our scope of sphere into more healthcare distribution channels;

Obtaining licenses and health regulatory approval in the PRC; and

Official launching of new series of products – the LINGZHI and POLYSACCHARIDES SERIES.

### **FUTURE PLANS AND DEVELOPMENT**

In the near future, in addition to the overall business plan, the Group will continue to focus its efforts and resources in the following areas:

#### *RESEARCH & PRODUCT DEVELOPMENT:*

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

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

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

Continued the Proteomics research with a target to identify 20,000 groups of proteins to set up a “Human Disease Proteoms” database;

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

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

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

#### *OPERATION OF A PHARMACEUTICAL MANUFACTURING PLANT:*

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

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

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

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

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

Establishing strategic partnership to increase the income source; and

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

#### *DISTRIBUTION OF HERBAL PRODUCT:*

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

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

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

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



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

At 31 July 2004, the interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.40 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules"), were as follows:

*Long positions in ordinary shares of the Company:*

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

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

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

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

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed in the share option scheme under the section "Share Option Scheme" of this announcement, 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 2004, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

*Long positions:*

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

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

## **DIRECTORS' INTEREST IN CONTRACTS**

Save as disclosed under the section "Related Parties Transactions" of this announcement, which set out details of the Group's transactions with a director, Ms. Cheng Kit Yin, Kelly and with China Rich Holdings Limited ("China Rich") group, in which Ms. Cheng Kit Yin, Kelly is interested by virtue of her shareholding in China Rich and is the Deputy Chairman of China Rich, and Mr. Kam Shing and Dr. Lau Lap Ping are executive and independent non-executive directors of China Rich, respectively, 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.

## **SHARE OPTIONS SCHEME**

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

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

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

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

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

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

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

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

The following share options were outstanding during the year:

				Number of share options		
	Date of grant of share options	Exercise period of share options	Exercise price HK\$	At 1 August 2003	Cancelled during the year	At 31 July 2004
<b>Directors</b>						
Ms. Cheng Kit Yin, Kelly	19.12.2000	<i>note (i)</i>	0.218	16,000,000	–	16,000,000
	4.6.2002	4.6.2002-18.4.2012	0.234	51,808,000	–	51,808,000
Mr. Kam Shing	19.4.2002	19.4.2002-18.4.2012	0.234	1,000,000	–	1,000,000
Dr. Ngai Sai Ming	19.4.2002	19.4.2002-18.4.2012	0.234	5,000,000	–	5,000,000
Dr. Lau Lap Ping	19.4.2002	19.4.2002-18.4.2012	0.234	1,000,000	–	1,000,000
				<u>74,808,000</u>	<u>–</u>	<u>74,808,000</u>
<b>Other employees</b>						
In aggregate	19.12.2000	<i>note (i)</i>	0.218	2,800,000	(1,300,000)	1,500,000
	19.4.2002	19.4.2002-18.4.2012	0.234	2,600,000	(2,200,000)	400,000
				<u>5,400,000</u>	<u>(3,500,000)</u>	<u>1,900,000</u>
				<u>80,208,000</u>	<u>(3,500,000)</u>	<u>76,708,000</u>

*Note:*

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

At the balance sheet date, the Company had 76,708,000 share options outstanding under the Old Scheme and the Revised Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 76,708,000 additional ordinary shares of the Company and additional share capital of HK\$767,080 and share premium of HK\$16,902,592 (before issue expenses).

## RELATED PARTY TRANSACTIONS

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

- (i) The Group paid rental of HK\$578,387 (2003: HK\$2,062,571) to the China Rich Group. The charge is based on the areas occupied by the Group pursuant to the agreements entered into between the parties. The unit rate per square foot was determined by the directors based on estimated market rates.
- (ii) The Group paid an administrative service fee of HK\$547,920 (2003: HK\$600,000) to the China Rich Group. The fee is charged at a fixed monthly fee determined by directors based on estimated time spent by the staff of the China Rich Group on the affairs of the Group.

- (iii) The Group paid website development costs of HK\$240,000 (2003: HK\$600,000) to the China Rich Group pursuant to the agreement entered into between the parties dated 3 January 2000. The fee was determined at prices agreed between the parties.
- (iv) The Group sold goods amounting to HK\$59,393 (2003: HK\$Nil) to CR Airways Limited, a company beneficially owned by the controlling shareholder of the China Rich Group, according to the published prices and conditions offered to the customers of the Group.
- (v) The Group paid management fee of HK\$951,480 (2003: HK\$951,480) to Fitzroya Investments Pte Ltd., a company of which Ms. Cheng Kit Yin, Kelly is a director, in respect of marketing and promotional services provided for the Group in Singapore and Malaysia. The fee is charged at a monthly fee pursuant to an agreement entered into between the parties.
- (vi) The Group paid rentals of HK\$400,000 (2003: HK\$600,000) to Fitzroya International Holdings Limited, a company of which Mr. Kam Shing is a director. The charges are based on the areas occupied by the Group pursuant to agreements entered into between the parties. The unit rate per square feet was determined by the directors based on estimated market rates.
- (vii) The Group received information technology advisory income of HK\$183,360 (2003: HK\$269,188) from the China Rich Group. The fee was determined at prices agreed between the parties and was similar to terms offered to other clients.
- (viii) The Group received information technology advisory income of HK\$911,227 (2003: HK\$906,940) and paid charter flight expenses of HK\$204,110 (2003: HK\$Nil) to CR Airways Limited, a company beneficially owned by the controlling shareholder of the China Rich Group.
- (ix) In the prior year, the Group sold goods amounting to HK\$300,000 to Ms. Cheng Kit Yin, Kelly, a director of the Company according to the published prices and conditions offered to the customers of the Group.
- (x) In the prior year, the Group purchased a motor vehicle of HK\$200,000 from the China Rich Group.

## **CONTINGENT LIABILITIES**

- (a) The Company is currently a defendant in a lawsuit brought by a party alleging that the Company had entered into an agreement with the Plaintiff whereby the Company agreed to pay finder's fee in consideration of the plaintiff's service of introducing strategic investor to the Company prior to its initial public offering. The Directors believe that the Company has a valid defence to the litigation and on the balance of probabilities, this alleged claim will likely be resolved in favour of the Company.
- (b) The Company has given cross guarantees to banks to secure general banking facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 31 July 2004 amounted to approximately HK\$65,521,000 (2003: HK\$58,082,000).

## **COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES**

In the opinion of the directors, the Company complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the year.

## **AUDIT COMMITTEE**

The Company's audit committee was formed on 17 March 2000 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report, financial statements, half-year reports and quarterly reports and to provide advice and comments thereon to the board of directors. Following the resignation of Mr. Ha Shu Tong on 5 October 2004, the audit committee currently comprises the independent non-executive directors, Dr. Lau Lap Ping and Mr. Man Kong Yui.

During the year, the audit committee met 4 times for reviewing the Group's quarterly, half-year and annual financial results and other matters. The members of the audit committee are of the opinion that the financial statements of the Group for the year ended 31 July 2004 comply with the applicable accounting standard, the GEM Listing Rules and legal requirements, and that adequate disclosures have been made.

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

For the year ended 31 July 2004, the directors are not aware of any business or interest of the directors, the management shareholders and their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interests which any such person has or may have with the Group.

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

### *Executive Directors:*

Ms. Cheng Kit Yin, Kelly

### *Non-executive Directors:*

Mr. Kam Shing

Dr. Ngai Sai Ming

### *Independent non-executive Directors:*

Dr. Lau Lap Ping

Mr. Man Kong Yui

Hong Kong, 23 November 2004

*This announcement will remain on the GEM website on the "Latest Company Announcement" page for 7 days from the day of its posting.*