



GOLDEN MEDITECH COMPANY LIMITED

金衛醫療科技有限公司

(Incorporated in the Cayman Islands with limited liability)

First Quarterly Report 2003/2004

GOLDEN  
MEDITECH  
COMPANY  
LIMITED

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

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*This report, for which the directors (the “Directors”) of Golden Meditech Company Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to the Company. 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.*

## HIGHLIGHTS

- For the three months ended 30 June 2003, turnover of the Group increased by 6% to approximately HK\$24,687,000.
- Profit attributable to shareholders for the three months ended 30 June 2003 reached HK\$11,692,000.
- Basic earnings per share were HK2.4 cents for the period under review.
- The Group has sold approximately 170 units of Machines, 12,000 units of Disposable Chamber and a number of Portable ABRS respectively for the three months ended 30 June 2003.
- The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2003.

## CONSOLIDATED INCOME STATEMENT

The directors (the "Directors") of Golden Meditech Company Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 30 June 2003 as follows:

		<b>Unaudited</b>	
		<b>For the three months ended</b>	
		<b>30 June</b>	
	<i>Note</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Turnover	2	24,687	23,230
Cost of sales		(7,866)	(6,493)
		<hr/>	<hr/>
Gross profit		16,821	16,737
Other revenue	3	1,938	49
Selling expenses		(671)	(1,509)
Administrative expenses		(6,506)	(3,714)
		<hr/>	<hr/>
Profit from operations		11,582	11,563
Share of profit from associate		110	—
		<hr/>	<hr/>
Profit from ordinary activities before taxation		11,692	11,563
Taxation	4	—	—
		<hr/>	<hr/>
Profit attributable to shareholders		<u>11,692</u>	<u>11,563</u>
Earnings per share	6		
- Basic		<u>2.4 cents</u>	<u>2.8 cents</u>
- Diluted		<u>2.4 cents</u>	<u>N/A</u>

Notes:

## 1. Basis of preparation

The principal accounting policies adopted in preparing the unaudited consolidated results conform with all applicable Statements of Standard Accounting Practice (“SSAPs”) and Interpretations issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong. The 2003/2004 first quarterly report also complies with the disclosure provisions of the Rules Governing the Listing of Securities on the GEM (“GEM Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

All intra-group transactions have been eliminated in preparing the unaudited consolidated results.

## 2. Turnover

The principal activities of the Group are the manufacture and sale of autologous blood recovery machines (“Machines”), disposable blood processing chambers and related accessories (“Disposable Chambers”), and portable version of the blood recovery machines (“Portable ABRS”).

Turnover represents the amounts received and receivable for goods sold to customers, less returns, allowances, value added tax and other sales tax, and is analysed as follows:

	<b>Unaudited</b>	
	<b>For the three months ended</b>	
	<b>30 June</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of:		
Machines	18,308	20,871
Disposable Chambers	5,284	2,359
Portable ABRS	1,095	—
	<hr/>	<hr/>
	24,687	23,230
	<hr/> <hr/>	<hr/> <hr/>

The Group’s turnover and operating profit are almost entirely derived from the sales of Machines, Disposable Chambers and Portable ABRS in the People’s Republic of China (the “PRC”). Accordingly, no analysis by business and geographical segments has been provided.

### 3. Other revenue

**Unaudited**  
**For the three months ended**  
**30 June**

	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Bank interest income	425	49
Government subsidies ( <i>Note</i> )	1,513	—
	<hr/>	<hr/>
	1,938	49
	<hr/> <hr/>	<hr/> <hr/>

*Note:*

Pursuant to the relevant government policies and approval document from the local government authorities dated 1 July 2002, the Group's PRC subsidiary is entitled to government subsidies which are calculated at approximately 14% of sales of software embedded in the Machines for a period expiring in December 2006.

### 4. Taxation

(i) *Hong Kong Profits Tax*

No provision for Hong Kong Profits Tax has been made for the three months ended 30 June 2003 (2002: \$Nil) as the Group did not have profits assessable to Hong Kong Profits Tax during the period.

(ii) *PRC income tax*

The Company's subsidiary in the PRC is subject to PRC income tax at a reduced rate of 15%. In accordance with the relevant rules and regulations in the PRC, the subsidiary is exempted from PRC income tax until 31 December 2003. Thereafter, the subsidiary will be entitled to a 50% reduction of PRC income tax for the next three years until 31 December 2006.

(iii) *Deferred taxation*

No provision for timing differences has been made as the effect of timing differences is immaterial.

### 5. Dividends

The board of Directors (the "Board") does not recommend the payment of an interim dividend for the three months ended 30 June 2003 (2002: Nil).

## 6. Earnings per share

### (a) Basic earnings per share

The calculation of the basic earnings per share for the three months ended 30 June 2003 is based on the unaudited consolidated profit attributable to shareholders of HK\$11,692,000 (2002: HK\$11,563,000) divided by the weighted average number of 485,000,000 (2002: 415,000,000) shares in issue during the period.

### (b) Diluted earnings per share

The calculation of diluted earnings per share for the three months ended 30 June 2003 is based on the unaudited consolidated profit attributable to shareholders of HK\$11,692,000 and weighted average number of 486,790,268 shares after adjusting for the effects of all dilutive potential shares.

No diluted earnings per share is presented for the three months ended 30 June 2002 as there were no dilutive potential ordinary shares in existence during the period.

## 7. Reserves

	Share premium HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Surplus reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2003	162,521	54,193	21	7,307	116,523	340,565
Profit for the three months ended 30 June 2003	—	—	—	—	11,692	11,692
At 30 June 2003	<u>162,521</u>	<u>54,193</u>	<u>21</u>	<u>7,307</u>	<u>128,215</u>	<u>352,257</u>
At 1 April 2002	36,329	54,193	(199)	—	47,287	137,610
Profit for the three months ended 30 June 2002	—	—	—	—	11,563	11,563
Exchange difference on translation of financial statements of companies outside Hong Kong	—	—	239	—	—	239
At 30 June 2002	<u>36,329</u>	<u>54,193</u>	<u>40</u>	<u>—</u>	<u>58,850</u>	<u>149,412</u>

## **DIVIDEND**

The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2003.

## **BUSINESS REVIEW AND PROSPECTS**

### **FINANCIAL REVIEW**

For the three months ended 30 June 2003, turnover of the Group rose to HK\$24,687,000, representing a growth of approximately 6%, compared with the corresponding period last year. Profit attributable to shareholders reached HK\$11,692,000.

During the period, the Group sold approximately 170 sets of Machines, 12,000 units of Disposable Chambers and a number of Portable ABRS.

The Group's results for the period included the contribution from its latest product, Portable ABRS. The outbreak of Severe Acute Respiratory Syndrome ("SARS") in the PRC slowed down the Group's drive to push its products to hospitals across the PRC but SARS outbreak had also exposed weaknesses of the blood transfusion industry in the PRC which relies on regular blood donations from the general public. People were less willing to donate blood during the period for fear of being infected with SARS. To make up for the shortages, more and more doctors and hospitals were willing to turn to the Group's ABRS for operations. With the lifting of SARS travel warnings by the World Health Organisation in June 2003, sales of the Group's ABRS have gradually returned to normal.

Because of the change in sales mix as well as the depreciation effect of the production facilities, the Group's gross profit margin dropped slightly to 68% for the period under review. The net profit margin maintained at 48% as a result of the government subsidies (i.e. VAT rebate) since 1 July 2002.

# **OPERATION REVIEW**

## **INTRODUCTION**

This quarter has been a challenging period for the Group and its management. The outbreak of SARS had on the one hand posed a difficult working environment for the Group's business. On the other hand, the outbreak had raised public concerns calling for a higher quality health care system. The management believes that the SARS impact will be beneficial to the Group in the long-term. With the effect of SARS receding, and the Group's business gradually returning to pre-SARS levels, the management is fairly optimistic with regard to the Group's performance for the rest of the year.

## **BLOOD RECOVERY SYSTEM**

SARS exposed weaknesses in the blood transfusion industry in the PRC, which relies heavily on traditional blood donations to replenish blood supplies. Because of SARS, more and more hospitals had to search for alternative methods of blood transfusions. Recent incidents in the blood transfusion industry around the world have further re-affirmed the Directors' belief that traditional blood transfusions can not be 100% safe. It is safer for patients to use their own blood during the operations. The Directors believe that these incidents will benefit the Group in the long term, as the Group's ABRs products were selected by the Ministry of Health ("MOH") of the PRC back in early 2003 as a product to be promoted nationwide.

## **BEIJING YUANDE**

The Group completed its investment in Beijing Yuande in partnership with the GE Medical Systems Division of General Electric Corporation, USA in March 2003. Beijing Yuande is engaged in the manufacture and sale of high intensity focused ultrasonic medical devices for the treatment of certain tumours.

Beijing Yuande's business is highly seasonal, whereby most of its income are derived from sales in the second half of the calendar year. In the first half of the calendar year, Beijing Yuande markets its medical devices to certain large hospitals across the PRC. This sales pattern explains why only a small contribution from Beijing Yuande was recorded during the period under review. The management believes that with the help of the PRC distribution network of both the Group and General Electric Corporation, profits from Beijing Yuande will contribute positively to the Group's profitability this year.

## **RESEARCH AND DEVELOPMENT**

Steady progress has been made on projects in the pipeline. Two promising projects, namely, plasma exchange equipment and blood collection equipment are expected to receive approval from the State Food and Drug Administration Bureau this fiscal year. In addition, the Group will continue to conduct research in the field of blood-related treatments and therapies with research institutes to develop innovative and advanced medical devices.

## **POST BALANCE SHEET EVENT**

### **INVESTMENT IN BLOOD STEM CELLS STORAGE BUSINESS**

On 4 July 2003, the Group entered into a sale and purchase agreement (“S&P Agreement”) to acquire a 51% equity interest in Beijing Jia Chen Hong Biological Technologies Company Limited (“Jia Chen Hong”). Jia Chen Hong was granted an Umbilical Cord Stem Cells Storage Permit by the MOH in September 2002 which enabled it to provide storage facilities to store blood stem cells extracted from the umbilical cords from newborn babies.

The total consideration for the investment in Jia Chen Hong will not exceed HK\$130 million, to be satisfied by the issue of up to 40 million shares of the Company at HK\$2 each and HK\$50 million in cash. The Board believes that the investment in Jia Chen Hong will provide the Group with various synergies, complementary to its existing business, and will have immediate contribution to the Group’s profitability and cash flows.

The S&P Agreement is subject to fulfillment of certain terms and conditions, and may be terminated if not closed within the time limits as set out in the S&P Agreement.

In addition, the Group is from time to time in discussion with potential target companies whose businesses are complementary to the existing business of the Group. Save as disclosed above, none of these discussions are in final stage and the Group has not reached any agreement for other investments.

## PROSPECTS

The PRC's medical sector is a market with tremendous growth potential. With improved living and educational standards, the general public has become more health conscious, demanding better health care. This creates plenty of opportunities for companies such as the Group to explore the market. With the Group's strong management team and research and development capabilities, the Group is well-positioned to capture suitable business opportunities. The Group will continue to invest in projects which are in line with or complementary to our business objectives with a view to enhancing the Group's profitability and shareholders' value.

With the lessening of adverse effects caused by SARS, it is anticipated that sales orders from hospitals for the Group's products will increase. The Directors will closely monitor developments in the market, and review the Group's sales and marketing policies from time to time.

## DISCLOSURE OF INTERESTS OF DIRECTORS

As at 30 June 2003, the interests or short positions of the Directors and chief executives of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### (1) Interests in shares

Name of Director		Number of shares			Total interest in shares	% of the Company's issued share capital
		Personal interest	Family interest	Corporate interest		
Mr. Kam Yuen	Note	—	—	238,800,000	238,800,000	49.2
Ms. Chau Mei Chun	Note	—	—	—	—	—
Mr. Leung Shi Wing	Note	—	—	—	—	—

Note: Mr. Kam Yuen, Ms. Chau Mei Chun and Mr. Leung Shi Wing are beneficially interested in 75 per cent, 6 per cent and 19 per cent respectively of the entire issued share capital of Bio Garden Inc. which held 238,800,000 shares of the Company as at 30 June 2003.

## (2) Interests in share options

On 31 March 2003, the Company granted share options to certain Directors to subscribe for shares in the Company under the Group's share option scheme ("Scheme") adopted on 30 July 2002 at an exercise price of HK\$1.15 per share. Details of which as at 30 June 2003 were as follows:

Name of Director	Exercisable period	Number of shares in respect of which option granted	Number of underlying shares in respect of which options as at 30 June 2003
Mr. Lu Tian Long	1 April 2003 to 16 March 2013	4,000,000	4,000,000
Ms. Zheng Ting	1 April 2003 to 16 March 2013	2,000,000	2,000,000

Save as disclosed above, as at 30 June 2003, none of the Directors, chief executives of the Company and their associates had any personal, family, corporate or other interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## SHARE OPTION SCHEME

Pursuant to the Scheme, the Company granted 24,250,000 share options to executives and full-time employees (including two Executive Directors) to subscribe for shares in the Company. The principal terms of the share option scheme are set out in note 23 on the financial statements as included in the annual report of the Company for the year ended 31 March 2003.

No share options were granted during the period under review. Details of the share options granted to two Executive Directors are set out above under the paragraph headed “(2) Interests in share options” under the section headed “Disclosure of Interests of Directors”, details of the share options granted to other executives and full time employees as at 30 June 2003 were as follows:

Number of employees	Number of shares in respect of which options granted		As at 30 June 2003	Date of grant	Exercise period	Exercise price
	As at 1 April 2003	Granted				
10	18,250,000	—	18,250,000	31 March 2003	1 April 2003 to 16 March 2013	HK\$1.15

Apart from the foregoing, at no time during the period under review was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, and no Director or chief executives or their respective spouses or children under eighteen years of age had been granted any right to subscribe for equity or debt securities of the Company nor exercised any such right.

## SHAREHOLDERS AND SHAREHOLDERS WITH NOTIFIABLE INTERESTS UNDER DIVISIONS 2 & 3 OF PART XV OF THE SFO

Other than interests disclosed in the paragraph headed “Disclosure of interests of Directors” above, as at 30 June 2003, according to the register of interests kept by the Company under section 336 of the SFO, the following persons and entities have interests or short positions in the shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Name	Number of shares	Approximate percentage of issued shares
Bio Garden Inc. <i>(Note)</i>	238,800,000	49.2%

*Note:* Bio Garden Inc. is an investment holding company incorporated in the British Virgin Islands. Mr. Kam Yuen, Ms. Chau Mei Chun and Mr. Leung Shi Wing are beneficial shareholders of 75%, 6% and 19% respectively of the issued share capital of Bio Garden Inc.

Save as disclosed above, as at 30 June 2003, the Directors are not aware of any other persons who has interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

During the period under review, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

## **COMPETING INTERESTS**

None of the Directors and the management shareholders of the Company had any interest in any business that directly or indirectly competes with the business of the Group or has any other conflicts of interest.

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

The Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures during the three months ended 30 June 2003.

## **SPONSOR'S INTEREST**

Pursuant to the sponsorship agreement entered into between ICEA Capital Limited (the "Sponsor") and the Company dated 18 December 2001, the Sponsor will receive a fee for acting as the Company's retained sponsor for the period from 28 December 2001 to 31 March 2004.

According to the notification from the Sponsor, as at 30 June 2003 an associate of the Sponsor held 4,480,000 shares of the Company, representing approximately 0.9% of the issued share capital of the Company.

Save as disclosed above and to the best knowledge of the Sponsor, neither the Sponsor, its directors, employees nor associates had any interests in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 30 June 2003.

## **AUDIT COMMITTEE**

The Group has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Group's annual report and financial statements, half-yearly report and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the Group's financial reporting and internal control procedures. The audit committee comprises Mr. Gu Qiao and Mr. Gao Zong Ze. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed accounting issues, internal controls and financial matters including the review of the unaudited consolidated income statement of the Group for the three months ended 30 June 2003.

By order of the Board  
**KAM YUEN**  
*CHAIRMAN*

HONG KONG, 4 August 2003