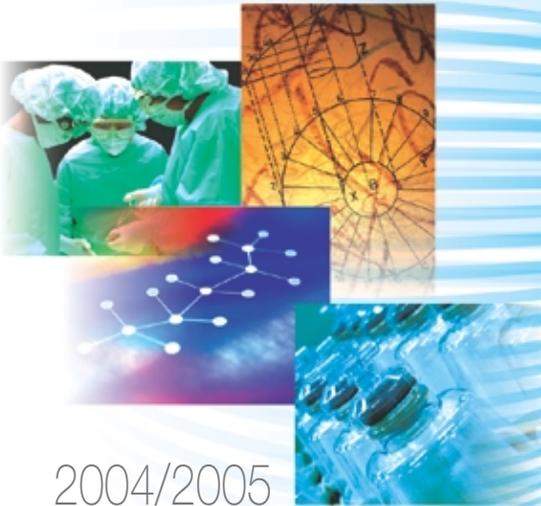




GOLDEN MEDITECH COMPANY LIMITED
金衛醫療科技有限公司
(Incorporated in the Cayman Islands with limited liability)



2004/2005
First Quarterly Report

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

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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 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 (the “Directors”) of Golden Meditech Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”) 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 2004, turnover of the Group amounted to HK\$56,464,000, representing a significant increase of approximately 129% compared with the corresponding period in 2003.
- Profit attributable to shareholders for the three months ended 30 June 2004 was HK\$32,798,000, representing a significant increase of approximately 181% over the corresponding period in 2003.
- Basic earnings per share were HK5.5 cents for the three months ended 30 June 2004, representing an increase of approximately 129% over the corresponding period in 2003.
- The Medical Device segment sold approximately a total of 410 sets of ABRS Machines and Portable ABRS Machines and 17,000 units of Disposable Chambers for the three months ended 30 June 2004.
- The Cord Blood Bank segment recorded a operating profit of HK\$1,308,000 for the three months ended 30 June 2004.
- The Tumour Treatment division continued to perform superbly for the period under review and contributed HK\$3,453,000 pre-tax profit to the Group.
- The Directors do not recommend an interim dividend for the three months ended 30 June 2004.

FIRST QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the “Board”) of the Company is 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 2004 as follows:

CONSOLIDATED INCOME STATEMENT

		Unaudited	
		For the three months	
		ended 30 June	
	<i>Note</i>	2004	2003
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	56,464	24,687
Cost of sales		(15,525)	(7,866)
		<hr/>	<hr/>
Gross profit		40,939	16,821
Other revenue	4	3,956	1,938
Selling expenses		(2,256)	(671)
Administrative expenses		(9,410)	(6,506)
		<hr/>	<hr/>
Profit from operations		33,229	11,582
Finance cost		(698)	—
Share of profit of an associate		3,453	110
		<hr/>	<hr/>
Profit before taxation		35,984	11,692
Taxation	5	(2,742)	—
		<hr/>	<hr/>
Profit after taxation		33,242	11,692
Minority interests		(444)	—
		<hr/>	<hr/>
Profit attributable to shareholders		32,798	11,692
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share			
- Basic	7	5.5 cents	2.4 cents
		<hr/> <hr/>	<hr/> <hr/>
- Diluted	7	5.4 cents	2.4 cents
		<hr/> <hr/>	<hr/> <hr/>

The notes on page 4 to 8 form part of this first quarterly report.

NOTES TO THE FIRST QUARTERLY REPORT

1. Basis of preparation

The unaudited consolidated results have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants (“HKSA”) and accounting principles generally accepted in Hong Kong.

The 2004/2005 first quarterly report also complies with the applicable disclosure requirements of the GEM Listing Rules.

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

2. Turnover

The Group is principally engaged in the manufacture and sale of autologous blood recovery machines (“ABRS Machines”), Portable ABRS Machines and disposable blood processing chambers and related accessories (“Disposable Chambers”) and provision of storage and accessory services for haematopoietic stem cells extracted from the umbilical cords of newborn babies (“Cord Blood Bank”).

Turnover represents the amounts received and receivable for goods and services rendered to customers, less returns, allowances, value added tax, business tax and other sales tax.

Turnover recognised during the period may be analysed as follows:

	Unaudited For the three months ended 30 June	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Sales of ABRS Machines and Portable ABRS Machines	45,276	19,403
Sales of Disposable Chambers	7,661	5,284
Relating to Cord Blood Bank services	3,527	—
	<hr/>	<hr/>
	56,464	24,687
	<hr/> <hr/>	<hr/> <hr/>

3. Segment information

(i) *Primary reporting format - business segments*

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

Medical Device segment - the development, manufacture and sale of medical devices; and

Cord Blood Bank segment - the provision of haematopoietic stem cell storage facilities and accessory services.

The following tables present turnover, expenditure and profit from operations information for the Group's business segments.

	Unaudited		
	For the three months ended		
	30 June 2004		
	<i>HK\$'000</i>		
	Medical Device segment	Cord Blood Bank segment	Consolidated
Turnover	52,937	3,527	56,464
Segment results	36,470	1,308	37,778
Unallocated costs			(4,549)
Profit from operations			33,229
Finance cost			(698)
Share of profit of an associate			3,453
Profit before taxation			35,984
Taxation			(2,742)
Profit after taxation			33,242
Minority interests			(444)
Profit attributable to shareholders			32,798

3. Segment information (cont'd)

Unaudited
For the three months ended
30 June 2003
HK\$'000

	Medical Device segment	Cord Blood Bank segment	Consolidated
Turnover	24,687	—	24,687
Segment results	13,736	—	13,736
Unallocated costs			(2,154)
Profit from operations			11,582
Share of profit of an associate			110
Profit before taxation			11,692
Taxation			—
Profit after taxation			11,692
Minority interests			—
Profit attributable to shareholders			11,692

(ii) *Secondary reporting format - geographical segments*

In view of the fact that the Group operates mainly in the People's Republic of China (the "PRC"), no geographical segment information is presented.

4. Other revenue

Unaudited
For the three months ended
30 June

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Bank interest income	228	425
Government subsidies (Note)	3,728	1,513
	3,956	1,938

4. Other revenue (cont'd)

Note:

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

5. Taxation

Taxation charged to the consolidated income statement represents:

	Unaudited	
	For the three months ended	
	30 June	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax - Outside Hong Kong		
PRC income tax for the period	2,501	—
Share of associate's taxation	241	—
	<hr/>	<hr/>
	2,742	—
	<hr/> <hr/>	<hr/> <hr/>

(i) *Hong Kong Profits Tax*

No provision for Hong Kong Profits Tax has been made for the three months ended 30 June 2004 (2003: Nil) as the Group did not have assessable profits subject to Hong Kong Profits Tax during the period.

(ii) *PRC income tax*

The Group's subsidiaries in the PRC are subject to PRC income tax, at a reduced rate of 15%. In accordance with the relevant tax rules and regulations in the PRC, one of the subsidiaries is entitled to a 50% reduction of PRC income tax until 31 December 2006.

Another subsidiary of the Group is in the process of applying for approval of the PRC income tax exemption from the relevant authority.

6. Dividend

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2004 (2003: Nil).

7. Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share for the three months ended 30 June 2004 is based on the unaudited consolidated profit attributable to shareholders of HK\$32,798,000 (2003: HK\$11,692,000) divided by the weighted average number of 594,159,231 (2003: 485,000,000) shares in issue during the period.

(ii) Diluted earnings per share

The calculation of diluted earnings per share for the three months ended 30 June 2004 is based on the unaudited consolidated profit attributable to shareholders of HK\$32,798,000 (2003: HK\$11,692,000) divided by the weighted average number of 601,988,120 (2003: 486,790,268) shares in issue during the period after adjusting for the effects of all dilutive potential shares.

8. Reserves

	Unaudited					Total HK\$'000
	Share premium HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Surplus reserve HK\$'000	Retained profits HK\$'000	
As at 1 April 2004	376,406	54,193	727	17,322	199,925	648,573
Exchange differences	—	—	—	—	—	—
Issuance of shares	7,544	—	—	—	—	7,544
Profit for the three months ended 30 June 2004	—	—	—	—	32,798	32,798
As at 30 June 2004	<u>383,950</u>	<u>54,193</u>	<u>727</u>	<u>17,322</u>	<u>232,723</u>	<u>688,915</u>
As 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
As 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>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

The Group continued to deliver strong growth for the three months ended 30 June 2004, with a turnover of HK\$56,464,000 which represents an increase of 129% as compared with that for the same period of the previous year.

The Group's overall performance for the three months under review is in line with the management's expectation. Turnover for the period under review comprised sales from the Medical Device segment, as well as service income from the Group's newly acquired Cord Blood Bank segment, whereas turnover for the same period in 2003 reflected only the Medical Device business, which was severely affected by the outbreak of Severe Acute Respiratory Syndrome ("SARS").

Gross profit margin

The Group's gross profit margin for the three months ended 30 June 2004 rose to 72% as the result of the change in sales and product mix. The gross profit margins for both of the Medical Device segment and the Cord Blood Bank segment remained fairly stable for the period under review.

Profit attributable to shareholders

The Group recorded profit attributable to shareholders of HK\$32,798,000 for the three months ended 30 June 2004, representing a significant increase of approximately 181% over the corresponding period in 2003. The results reflected the Group's success in its business development and investment strategies.

BUSINESS REVIEW

Overall review

The period under review marked another milestone in the Group's history. In June 2004, the Group entered into an agreement to acquire a controlling interest in a Chinese herbal medicine company which has successfully developed the only Chinese herbal medicine in the PRC that can effectively improve the immune systems of HIV carriers and AIDS patients. The acquisition will lay a solid foundation for the Group to enter into the pharmaceutical business and thus bring the Group a step closer to achieving its mission, i.e. to improve the health of human beings and to become a leading international hi-tech integrated medical enterprise. The Directors believe that herbal medicine will play a more significant role in pharmaceutical business in the future.

For the period under review, the Group has the following businesses in operation: (1) the development, manufacture and sale of medical devices; (2) the provision of haematopoietic stem cell storage facilities and accessory services; and (3) tumour treatment business.

Medical Device segment

The Medical Device segment is engaged in the development, manufacture and sale of blood related medical devices. For the three months ended 30 June 2004, the Medical Device segment reported a turnover of HK\$52,937,000. As opposed to the disappointing result of the first quarter of 2003/2004, which was affected by the outbreak of SARS, the Medical Device segment performed superbly for the current period, resulting in a significant increase in turnover of 114% as compared to the corresponding period last year.

Autologous blood recovery system ("ABRS"), which is made up of ABRS Machines and Disposable Chambers, remained as the flagship product of the Group during the period under review. ABRS Machines and Portable ABRS Machines accounted for 85% of the segment's aggregate turnover, while Disposable Chambers accounted for the rest.

For the three months ended 30 June 2004, the Group sold a total of 410 sets (2003: 180 sets) of ABRS Machines and Portable ABRS Machines and 17,000 units (2003: 12,000 units) of Disposable Chambers.

Steady progress has been made on the products under development, and in particular, the Plasma Exchange System, which can be used for various medical treatments including recovery from poisoning and deter the progression of illness of patients suffering advanced liver failure. This new system is on schedule to receive approval of the State Food and Drug Administration Bureau (“SFDA”) of the PRC this year. Upon approval from the SFDA and launching of this new product, the Medical Device segment will have an even more diversified product portfolio.

In the PRC, blood shortage and increase in public awareness of safety issues in blood transfusion continue to favor the sales of our existing ABRS, Portable ABRS Machines and other new products which are to be launched in the future. We believe that our in-depth knowledge of the PRC market help us to identify and develop products with good market potential.

Cord Blood Bank segment

The Cord Blood Bank segment performed satisfactorily for the three months ended 30 June 2004, and reported a turnover of HK\$3,527,000. The Cord Blood Bank service is becoming more popular among the general public and the revenue for the period under review was close to the accumulated revenue for last year since the segment was acquired in September 2003.

Up to now, the PRC government has only issued two Umbilical Cord Stem Cell Storage Permits, and our Cord Blood Bank segment owns one of them. The Cord Blood Bank segment provides storage facilities, extraction, separation and other related services in order to store the haematopoietic stem cells extracted from the umbilical cords of newborn babies. The haematopoietic stem cells are used in many medical treatment procedures against life-threatening diseases, for instance, leukemia, immuno-deficiency, aplastic anaemia and thalassaemia. Apart from these life-saving medical applications, the haematopoietic stem cells provided by the Cord Blood Bank segment will also be used for researches on stem cells development. Discoveries in modern science may bring in new medical applications for haematopoietic stem cells.

As at the date of this report, the Group has one cord blood bank operating in Beijing and has established another four cord blood banks in several other affluent regions in the PRC, bringing the total storage capacity to 250,000 units. These newly constructed cord blood banks are expected to be in operation by the end of 2004. With the aim to increasing the market coverage, the Group plans to build seven more cord blood banks within the next two years, bringing the total storage capacity to 600,000 units. Once all cord blood banks are in operation, management believes that the Cord Blood Bank segment will bring in stable earnings and cash flow to the Group as this business has huge market potential and is highly profitable with high entry barriers.

Tumour Treatment division

The Group, in partnership with the Medical Systems of the General Electric Company, USA, invested in Beijing Yuande Biological and Engineering Company Limited (“Beijing Yuande”), which is engaged in the development, manufacture and sale of high intensity focused ultrasonic (“HIFU”) medical devices for the treatment of tumours.

HIFU is at the forefront of modern technology, utilising high energy ultrasonic pulses that focus on and destroy the tumour cells instantly. This is a non-invasive and painless treatment procedure and can replace traditional tumour removal surgeries with the benefit of not causing any visible wounds.

The Tumour Treatment division contributed remarkable earnings to the Group. A pre-tax profit of approximately HK\$3,453,000 was contributed to the Group for the period under review.

Leveraging on its research and development capabilities, Beijing Yuande will further strengthen its leading position in tumour treatment technology.

MAJOR INVESTMENTS

Investment in Medical Device Distribution Business

In March 2004, the Group entered into a joint venture agreement with the China National Medical Equipment Industry Corporation (“CMIC”), the largest state-owned medical equipment distributor in the PRC. The new joint venture, Union China National Medical Equipment Company Limited (“Union China National”), upon establishment, will inherit the medical device distribution business, the superior distribution network and industrial expertise from CMIC.

Management expects that Union China National will commence operation by the end of 2004 after obtaining approvals from the PRC authorities.

Investment in Chinese Herbal Medicine Business

On 9 June 2004, the Group entered into an agreement to acquire a 51% equity interest in Beijing Qi Jie Yuan Medicine Technology Development Limited (“Qi Jie Yuan”) for an aggregate consideration of HK\$452,800,000. The consideration is to be satisfied (i) by cash of HK\$226,400,000; and (ii) by the issue of a convertible bond in the principal amount of HK\$226,400,000. The convertible bond bears interest at the rate of 1% per annum and will mature in three years subsequent to its date of issue. The outstanding principal amount of the bonds may be converted into ordinary shares of the Company at an initial conversion price of HK\$3.80 per share, subject to adjustment, at any time and from time to time after three months subsequent to its date of issue.

Qi Jie Yuan is engaged in the research and development of Chinese herbal medicines. After years of endeavour, Qi Jie Yuan has successfully developed Tang Cao Pian, which is the first and only Chinese herbal medicine in the PRC that can effectively enhance the immune systems of HIV carriers and AIDS patients and alleviate their symptoms. Tang Cao Pian was granted the Certificate for New Medicine by the SFDA in April 2004.

Compared with other contemporary medicines, Tang Cao Pian causes fewer side effects. In view of such advantage as well as the growing population of HIV carriers and AIDS patients in the PRC and worldwide, management is of the view that this medicine will be commercially viable and will have huge market potentials both within and outside the PRC.

PROSPECTS

The medical sector developed prosperously in the relatively weak global economies in the past few years, especially in the PRC where the medical sector has enjoyed double-digit annual growth. The rise in living and education standards has boosted the ever-growing demand for high quality medical and health products, creating many opportunities for the Group.

Going forward, the Medical Device segment will continue to focus on product development and product penetration, which will bring in ever-growing earnings to the Group. The Cord Blood Bank segment should bring in more substantial earnings as more cord blood banks are built and put into operation within the next two years. The Group also expects to see strong performance in the Tumour Treatment division in the foreseeable future. For the two new businesses - Medical Device Distribution and Chinese Herbal Medicines, the Group expects decent contributions from both of these businesses in the future.

Overall, management is confident that the Group's performance in the first quarter is on track to achieve its financial targets for the coming year and hence deliver growing returns to the shareholders.

DISCLOSURE OF INTERESTS OF DIRECTORS

As at 30 June 2004, the interests or short positions of the Directors and chief executive 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 5.46 to 5.66 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long position in shares

Name of Director	Capacity	<u>Number of shares</u>				Total interest	% of the Company's issued share capital
		Personal interest	Family interest	Corporate interest			
Mr. Kam Yuen (Note)	Interest of controlled corporation	—	—	208,860,000	208,860,000	35.02	
Mr. Lu Tian Long	Beneficial Owner	1,200,000	—	—	1,200,000	0.20	
Ms. Zheng Ting	Beneficial Owner	600,000	—	—	600,000	0.10	

Note:

Mr. Kam Yuen is the sole beneficial owner of the entire issued share capital of Bio Garden Inc., which held 208,860,000 shares in the Company as at 30 June 2004.

(ii) Long positions in underlying shares

Pursuant to the share option scheme adopted by the Company on 30 July 2002 (the “Share Option Scheme”), certain Directors were granted share options on 31 March 2003 to subscribe for the shares at HK\$1.15 per share, and details of which as at 30 June 2004 are stated as follows:

Name of Director	Exercise period	<u>Number of underlying shares in respect of which options granted</u>		
		As at 1 April 2004	Exercised	As at 30 June 2004
Mr. Lu Tian Long (Note)	1 April 2003 to 16 March 2013	2,800,000	1,200,000	1,600,000
Ms. Zheng Ting (Note)	1 April 2003 to 16 March 2013	1,400,000	600,000	800,000

Note:

On 28 April 2004, Mr. Lu Tian Long and Ms. Zheng Ting exercised options to subscribe for 1,200,000 and 600,000 shares respectively.

The exercise of the above share options and those granted to other executives and full-time employees as set out under the section headed “Share Option Scheme” is subject to the following limits:

- (1) During the period immediately after the date of grant up to 12 months thereof, the option holder is entitled to exercise up to 30% of the share options;
- (2) During the period immediately after 12 months of the date of grant and up to 18 months thereof, the option holder is entitled to exercise up to 60% of the share options; and
- (3) Immediately after 18 months of the date of grant, the limits will cease and the option holder is entitled to exercise up to 100% of the share options.

During the three months ended 30 June 2004, none of the Directors was granted options to subscribe for the shares.

Save as disclosed above, as at 30 June 2004, none of the Directors, chief executive 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 5.46 to 5.66 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

In order to align the interests of staff with those of shareholders, share options are awarded to full-time employees (including Directors of the Group) to subscribe for shares under the Share Option Scheme. The principal terms of the Share Option Scheme are set out in note 25 to the financial statements as included in the annual report of the Company for the year ended 31 March 2004.

No share options were granted or cancelled during the period under review. Details of the share options granted to two Executive Directors are set out above under the paragraph headed “(ii) Long positions in underlying shares” under the section headed “Disclosure of Interests of Directors”, and details of the share options granted to other executives and full time employees as at 30 June 2004 were as follows:

<u>Number of underlying shares in respect of which options granted</u>						
Number of Employees	As at	Exercised	As at	Date of grant	Exercise period	Exercise price
	1 April 2004		30 June 2004			
10	12,865,000	5,385,000 (Note)	7,480,000	31 March 2003	1 April 2003 to 16 March 2013	HK\$1.15 per share

Note:

Share options for 5,385,000 shares were exercised by 9 employees on 28 April 2004.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Other than the Share Option Scheme described above, 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 chief executive of the Company 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. In addition, no Director or chief executive 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 during the period under review.

SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2004, the interest of the shareholders (not being Directors and the chief executive 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 SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity	Number of Shares	% of the Company's issued share capital
Bio Garden Inc.	Beneficial owner	208,860,000 (<i>Note</i>)	35.02

Note:

Bio Garden Inc. is an investment holding company incorporated in the British Virgin Islands. Mr. Kam Yuen is the sole beneficial owner of the entire issued share capital of Bio Garden Inc. as at 30 June 2004.

Save as disclosed above, as at 30 June 2004, the Directors are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

The Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures during the three months ended 30 June 2004.

COMPETING INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective associates had any interest in any business that directly or indirectly competes with the business of the Group or has any other conflicts of interest with the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

AUDIT COMMITTEE

The Group has established an audit committee with written terms of reference based upon the guidelines published by the HKSA. The primary duties of the audit committee are to review the Group's annual report and financial statements, interim 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 control and financial matters including the review of the unaudited first quarterly report of the Group for the three months ended 30 June 2004.

By order of the Board
KAM YUEN
CHAIRMAN

HONG KONG, 13 August 2004