



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

## Third 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 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 nine months ended 31 December 2003, turnover of the Group amounted to HK\$125,019,000, representing a significant increase of approximately 37% compared with the corresponding period in 2002.
- Profit attributable to shareholders for the nine months ended 31 December 2003 was HK\$75,176,000, representing a significant increase of approximately 48% over the corresponding period in 2002.
- Basic earnings per share were HK15.0 cents for the nine months ended 31 December 2003, representing an increase of approximately 34% over the corresponding period in 2002.
- The Medical Devices Segment sold approximately 720 sets of Machines, 44,000 units of Disposable Chambers and 220 sets of Portable ABRS for the nine months ended 31 December 2003.
- The Cord Blood Bank Segment recorded a small profit for the period ended 31 December 2003.
- The Tumour Treatment Division has achieved outstanding performance for the period under review and contributed HK\$6,954,000 profit to the Group.
- The Directors do not recommend an interim dividend for the nine months ended 31 December 2003.

### THIRD-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 and nine months ended 31 December 2003 as follows:

#### CONSOLIDATED INCOME STATEMENT

		Unaudited For the three months ended 31 December		Unaudited For the nine months ended 31 December	
	Note	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	52,190	37,570	125,019	91,508
Cost of sales		(16,592)	(12,521)	(38,412)	(27,782)
Gross profit		35,598	25,049	86,607	63,726
Other revenue	3	3,709	6,857	9,479	7,315
Selling expenses		(849)	(1,336)	(2,936)	(3,857)
Administrative expenses		(10,690)	(7,111)	(23,877)	(16,261)
Profit from operations		27,768	23,459	69,273	50,923
Finance cost		(369)	—	(406)	—
Share of profit from associate		1,512	—	6,954	—
Profit from ordinary activities before taxation		28,911	23,459	75,821	50,923
Taxation	4	(128)	—	(424)	—
Profit from ordinary activities after taxation		28,783	23,459	75,397	50,923
Minority interests		(156)	—	(221)	—
Profit attributable to shareholders		28,627	23,459	75,176	50,923
Earnings per share					
- Basic	6	5.4 cents	4.8 cents	15.0 cents	11.2 cents
- Diluted	6	5.3 cents	N/A	14.8 cents	N/A

The notes on page 4 to 9 form part of this third-quarterly report.

## **NOTES TO THE THIRD-QUARTERLY REPORT**

### **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 third-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.

The Group has adopted the new and revised SSAPs which became effective for the Group’s accounting period. The adoption of those new and revised SSAPs has no material effect on the Group’s results for the current or prior accounting periods.

## 2. 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 Devices Segment - the development, manufacture and sale of medical devices; and

Cord Blood Bank Segment - the provision of blood stem cells storage facilities and accessories services.

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

	<b>Unaudited</b>		
	<b>For the nine months ended</b>		
	<b>31 December 2003</b>		
	<i>HK\$'000</i>		
	<b>Medical Devices Segment</b>	<b>Cord Blood Bank Segment</b>	<b>Consolidated</b>
Turnover	122,412	2,607	125,019
Segment results	79,574	857	80,431
Unallocated costs			(11,158)
Profit from operations			69,273
Finance cost			(406)
Share of profit from associate			6,954
Profit from ordinary activities before taxation			75,821
Taxation			(424)
Profit from ordinary activities after taxation			75,397
Minority interests			(221)
Profit attributable to shareholders			75,176

2. **Segment information** *(cont'd)*

**Unaudited**  
**For the nine months ended**  
**31 December 2002**  
*HK\$'000*

	<b>Medical Devices Segment</b>	<b>Cord Blood Bank Segment</b>	<b>Consolidated</b>
Turnover	91,508	—	91,508
Segment results	60,004	—	60,004
Unallocated costs			(9,081)
Profit from ordinary activities before taxation			50,923
Taxation			—
Profit from ordinary activities after taxation			50,923
Minority interests			—
Profit attributable to shareholders			50,923

(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.



### 3. Other revenue

	Unaudited For the three months ended 31 December		Unaudited For the nine months ended 31 December	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Interest income	174	291	999	749
Government subsidies ( <i>Note</i> )	3,535	6,566	8,480	6,566
	<u>3,709</u>	<u>6,857</u>	<u>9,479</u>	<u>7,315</u>

*Note:*

Pursuant to the relevant PRC government policies and approval document from the local government authorities, certain products of the Group are entitled to government subsidies for a period expiring in December 2006.

### 4. Taxation

Taxation charged to the consolidated income statement represents:

	Unaudited For the three months ended 31 December		Unaudited For the nine months ended 31 December	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Share of associate's taxation	128	—	424	—
	<u>128</u>	<u>—</u>	<u>424</u>	<u>—</u>

No provision for Hong Kong Profits Tax has been made for the nine months ended 31 December 2003 (2002: Nil) as the Group did not have assessable profits subject to Hong Kong Profits Tax during the period.

Pursuant to the relevant laws and regulations in the PRC, all the Company's PRC subsidiaries were fully exempted from PRC income tax during the period, and hence no provision for PRC income tax has been made.

No provision for deferred taxation has been made as there were no significant unprovided deferred tax liabilities or deferred tax assets as at 31 December 2003 (2002: Nil).

## 5. Dividends

	Unaudited For the three months ended 31 December		Unaudited For the nine months ended 31 December	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Final dividends paid: HK\$0.03 per share for the year ended 31 March 2003 (31 March 2002: Nil)	—	—	14,550	—

The Directors do not recommend the payment of an interim dividend for the nine months ended 31 December 2003 (2002: Nil).

## 6. Earnings per share

### (i) *Basic earnings per share*

The calculation of basic earnings per share for the three months and nine months ended 31 December 2003 is based on the unaudited consolidated profit attributable to shareholders of HK\$28,627,000 and HK\$75,176,000 respectively divided by the weighted average number of 530,544,946 and 502,418,673 shares respectively in issue during the periods.

The calculation of basic earnings per share for the three months and nine months ended 31 December 2002 is based on the unaudited consolidated profit attributable to shareholders of HK\$23,459,000 and HK\$50,923,000 respectively divided by the weighted average number of 485,000,000 and 455,727,273 shares respectively in issue during the periods.

### (ii) *Diluted earnings per share*

The calculation of diluted earnings per share for the three months and nine months ended 31 December 2003 is based on the unaudited consolidated profit attributable to shareholders of HK\$28,627,000 and HK\$75,176,000 respectively divided by the weighted average number of 539,523,936 and 509,473,605 shares respectively in issue during the periods after adjusting for the effects of all dilutive potential shares.

No diluted earnings per share is presented for the three months and nine months ended 31 December 2002 as there were no dilutive potential shares in existence during the periods.

## 7. 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 2003	162,521	54,193	21	7,307	
Exchange differences	—	—	(71)	—	—	(71)
Issuance of shares	71,584	—	—	—	—	71,584
Profit for the nine months period ended 31 December 2003	—	—	—	—	75,176	75,176
Transfer to surplus reserve	—	—	—	9,955	(9,955)	—
Dividends (Note 5)	—	—	—	—	(14,550)	(14,550)
As at 31 December 2003	<u>234,105</u>	<u>54,193</u>	<u>(50)</u>	<u>17,262</u>	<u>167,194</u>	<u>472,704</u>
As at 1 April 2002	36,329	54,193	(199)	—	47,287	137,610
Exchange differences	—	—	96	—	—	96
Issuance of shares	133,000	—	—	—	—	133,000
Share issue expenses	(6,808)	—	—	—	—	(6,808)
Profit for the nine months period ended 31 December 2002	—	—	—	—	50,923	50,923
Transfer to surplus reserve	—	—	—	6,107	(6,107)	—
As at 31 December 2002	<u>162,521</u>	<u>54,193</u>	<u>(103)</u>	<u>6,107</u>	<u>92,103</u>	<u>314,821</u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

#### **Turnover**

Compared with the corresponding period last year, the Group's turnover for the nine months ended 31 December 2003 increased by approximately 37% to HK\$125,019,000. This significant increase was largely attributable to the launching of a new product from the Medical Devices Segment, i.e. portable version of ABRS ("Portable ABRS"), as well as the contribution from the Group's newly acquired Cord Blood Bank Segment since September 2003.

#### **Gross profit margin**

Despite the slight change in sales and products mix, the Group's gross profit margin for the nine months ended 31 December 2003 remained at around 69%. The gross profit margins in both Medical Devices Segment and Cord Blood Bank Segment remained relatively stable for the period under review.

#### **Profit attributable to shareholders**

The Group recorded profit attributable to shareholders of HK\$75,176,000 for the nine months ended 31 December 2003, representing a significant increase of approximately 48% over the corresponding period in 2002. The satisfactory results reflected the Group's success in its business developments and investment strategies.

### **BUSINESS REVIEW**

#### **Overall review**

The PRC economy has resumed its strong growth momentum since July 2003 after the PRC government had swiftly and successfully brought the Severe Acute Respiratory Syndrome ("SARS") under control, and thus gave a powerful lift to the demand for capital expenditure on medical devices by hospitals. Under these circumstances, the Group's businesses made significant progress in the second and third quarters. The management is confident that the spectacular performance of the Group will remain for the rest of the year.

During the period under review, the Group's businesses consist of: (1) the development, manufacture and sale of medical devices; (2) the provision of blood stem cells storage facilities and accessories services; and (3) investment in tumour treatment business.

### **Medical Devices Segment**

Medical Devices Segment is engaged in the development, manufacture and sale of medical devices. Autologous blood recovery system ("ABRS"), which is made up of blood recovery machines ("Machines") and disposable chambers that are replaced after each surgical operation ("Disposable Chambers"), remained as the flagship product of the Group during the period under review. Machines accounted for 64% of the total turnover of the Medical Devices Segment while Disposable Chambers accounted for 16%. The rest came from the sale of Portable ABRS, which was launched in the market this year.

Although the financial results of the first quarter was dragged down by the SARS outbreak, sales rebounded quickly in the second quarter, and such spectacular performance has continued in the third quarter. For the nine months ended 31 December 2003, the Group sold approximately 720 sets (2002: 754 sets) of Machines, 44,000 units (2002: 16,580 units) of Disposable Chambers and 220 sets (2002: Nil) of Portable ABRS.

Management believes that the market trends will continue to favour the promotion and sales of our ABRS and Portable ABRS in the PRC. Despite increased general public awareness of the need for voluntary blood donation, blood demand continues to outstrip the supply. We believe our ABRS provides a better alternative for patients who need blood transfusions during surgical operations. The drastic increase in the sales of Disposable Chambers further demonstrated the popularity of our ABRS in hospitals.

## **Cord Blood Bank Segment**

Up to now, the PRC government only issued two Umbilical Cord Stem Cells Storage Permits, and our Cord Blood Bank Segment owns one of them. Our Cord Blood Bank provides storage facilities, extraction, separation and other related services in order to store the blood stem cells extracted from the umbilical cords of newborn babies. The blood stem cells can be used for treatment of various life-threatening diseases, for instance, leukemia. Apart from the life-saving medical applications, the blood stem cells provided by the Cord Blood Bank will also be used for researches on stem cells development.

The Group plans to construct eleven new storage facilities in the most affluent regions in the PRC to exploit the potentials of this new business in the next two years. It is estimated that these storage facilities will require capital investment by the Group and minority shareholders of our Cord Blood Bank Segment to the extent of approximately HK\$240 million. The Group intends to finance its share of the investment by internal resources and bank loans.

The slow start of our Cord Blood Bank business this year was the combination of the impact from the SARS outbreak as well as the low birth rate in the year of “Sheep”. According to traditional Chinese beliefs, the year of “Sheep” is not a lucky year and children born during such year are not as lucky; therefore, people in the PRC are generally reluctant to give birth in the year of “Sheep”. Because of such traditional mindset of the people in the PRC, management expects strong rebound in the birth rate this coming year, the year of “Monkey”, and has seen strong demand for our cord blood storage services in February 2004 alone.

Despite that, our Cord Blood Bank operation still recorded a small profit for the period. In the long run, 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's co-investment with General Electric Company of the USA 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 certain tumours, has achieved remarkable performance for the period under review, resulting in the Group's share of its profit being HK\$6,954,000.

HIFU is a non-invasive technology being used to destroy certain tumours inside patients. The entire treatment process can replace traditional tumour removal surgeries with the benefit of not causing any visible wounds and is relatively painless to patients.

## **POST BALANCE SHEET EVENTS**

### **Placing of 57,000,000 shares at HK\$2.70 each**

On 9 January 2004, the Company and Bio Garden, Inc., the controlling shareholder of the Company, entered into a placing agreement with ICEA Capital Limited to place an aggregate of up to 57,000,000 shares at HK\$2.70 each. Bio Garden, Inc. and the Company also entered into a subscription agreement on the same date. Pursuant to the subscription agreement, upon the completion of the placing, Bio Garden, Inc., would in turn subscribe for the same number of shares actually placed, being not more than 57,000,000 shares, at HK\$2.70 each (net of expenses). The subscription for 57,000,000 shares was completed on 21 January 2004. The net proceeds of approximately HK\$146,000,000 was intended (a) to be used as investment in a joint venture set up with China National Medical Equipment Industry Corporation ("CMIC") in the PRC; (b) to finance any future potential investments of the Company; and (c) to be used as general working capital of the Company in respect of its business operations.

The new joint venture set up with CMIC will be engaged in the distribution of overseas medical devices products in the PRC. CMIC is one of the largest state-owned enterprises involved in medical devices distribution in the PRC. Management believes that the Group shall benefit from CMIC's strong distribution network and expertise in the medical devices industry, in particular, in expanding market share of the Group's products in the PRC. CMIC will also bring in the wholesale business of many overseas well-known brands and thereby enlarging the Group's earnings base.

## **PROSPECTS**

Medical sector developed prosperously in the relatively weak global economies in the past few years. In the PRC, the rise in living standards has boosted the ever-growing demand for high quality medical and health products, leading to the strong growth of the medical sector which is presently growing at double digit figures annually.

The Group continues to see strong performance from both its Medical Devices Segment and Tumour Division while the Cord Blood Bank Segment is expected to provide strong contributions to the Group in the future. Furthermore, management expects a decent profit contribution from its new joint venture which gives the Group a even better distribution network in the PRC.

Our dedicated employees, portfolio of high quality products and advanced technologies developed in house form the backbone of the Group's core competencies, which will support growth in the depth and breadth of our businesses. We also see expansion opportunities beyond our existing businesses and are keen on developing new technologies to capture growing business opportunities worldwide with a view to creating long-term value for our shareholders.



## DISCLOSURE OF INTERESTS OF DIRECTORS

As at 31 December 2003, 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 5.40 to 5.58 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	—	—	202,800,000	202,800,000	38.11	

*Note:*

Mr. Kam Yuen is the sole beneficial shareholder of the entire issued share capital of Bio Garden, Inc., which held 202,800,000 shares as at 31 December 2003.

**(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 31 December 2003 were stated as follows:

Name of Director	Exercise period	<b><u>Number of underlying shares in respect of which options granted</u></b>		
		As at 1 April 2003	Exercised	As at 31 December 2003
Mr. Lu Tian Long (Note)	1 April 2003 to 16 March 2013	4,000,000	1,200,000	2,800,000
Ms. Zheng Ting (Note)	1 April 2003 to 16 March 2013	2,000,000	600,000	1,400,000

*Note:*

At the date of exercise, 21 October 2003, the closing price per share was HK\$1.94.

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 nine months ended 31 December 2003, none of the Directors was granted options to subscribe for the shares.

Save as disclosed above, as at 31 December 2003, 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 5.40 to 5.58 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 employees (including two Executive Directors) to subscribe for shares under discretionary share option scheme. The principal terms of the Share Option Scheme are set out in note 23 to the financial statements as included in the annual report of the Company for the year ended 31 March 2003.

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 31 December 2003 were as follows:

<u>Number of underlying shares in respect of which options granted</u>						
Number of Employees	As at	As at		Date of grant	Exercise period	Exercise price
	1 April 2003	Exercised	31 December 2003			
10	18,250,000	5,385,000 (Note)	12,865,000	31 March 2003	1 April 2003 to 16 March 2013	HK\$1.15

*Note:*

5,385,000 share options were exercised by 10 employees on 21 October 2003. At the date of exercise, the closing price per share was HK\$1.94.

## 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 31 December 2003, 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:

### (i) Substantial shareholder

Name of substantial shareholder	Capacity	Number of Shares	% of the Company's issued share capital
Bio Garden, Inc.	Beneficial owner	202,800,000 ( <i>Note</i> )	38.11

*Note:*

Bio Garden, Inc. is an investment holding company incorporated in the British Virgin Islands. Mr. Kam Yuen is the sole beneficial shareholder of the entire issued share capital of Bio Garden, Inc. as at 31 December 2003.

## (ii) Other persons who are required to disclose their interests

Name of other persons who have more than 5% interest	Capacity	Number of shares	Approximate % of the Company's issued share capital
Nordea 1 SICAV - Far Eastern Value Fund	Beneficial owner	28,664,000	5.39
GE Asset Management Incorporated	Investment manager	27,508,000	5.17

Save as disclosed above, as at 31 December 2003, 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.

## SPONSOR'S INTERESTS

Pursuant to a 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.

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 31 December 2003.

## 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 nine months ended 31 December 2003.

## COMPETING INTERESTS

None of the Directors and the management shareholders of the Company and 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.

## **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 third-quarterly report of the Group for the nine months ended 31 December 2003.

By order of the Board

**KAM YUEN**

*CHAIRMAN*

HONG KONG, 13 February 2004