



GOLDEN MEDITECH COMPANY LIMITED  
金衛醫療科技有限公司

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 8180)



2004/2005  
Third Quarterly Report

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

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## HIGHLIGHTS

- For the nine months ended 31 December 2004, turnover of the Group amounted to HK\$179,276,000, representing a significant increase of approximately 43% compared with the corresponding period in 2003.
- Profit attributable to shareholders for the nine months ended 31 December 2004 was HK\$104,225,000, representing a significant increase of approximately 39% over the corresponding period in 2003.
- On 22 December 2004, the Group completed the acquisition of Bai Sui Hang which owns GMP production facilities and will enable the Group to commence commercial production of TangHerb soon for the treatment of AIDS.
- Basic earnings per share were HK8.71 cents for the nine months ended 31 December 2004 (as adjusted for the Bonus Issue).
- The Medical Device segment sold a total of approximately 1,390 sets of ABRS Machines and Portable ABRS Machines and approximately 58,000 units of Disposable Chambers for the nine months ended 31 December 2004.
- The Cord Blood Bank segment recorded an operating profit of HK\$4,152,000 for the nine months ended 31 December 2004.
- The Tumour Treatment division has achieved outstanding performance for the period under review and contributed HK\$19,710,000 pre-tax profit to the Group.
- The Directors do not recommend an interim dividend for the nine months ended 31 December 2004.

### 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 2004 together with the comparative unaudited figures for the corresponding periods in 2003 as follows:

#### CONSOLIDATED INCOME STATEMENT

		Unaudited For the three months ended 31 December		Unaudited For the nine months ended 31 December	
	Note	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	<b>59,596</b>	52,190	<b>179,276</b>	125,019
Cost of sales		<b>(17,517)</b>	(16,592)	<b>(50,128)</b>	(38,412)
Gross profit		<b>42,079</b>	35,598	<b>129,148</b>	86,607
Other revenue	4	<b>3,767</b>	3,709	<b>12,122</b>	9,479
Selling expenses		<b>(1,864)</b>	(849)	<b>(5,844)</b>	(2,936)
Administrative expenses		<b>(8,978)</b>	(9,773)	<b>(25,352)</b>	(22,763)
Other operating expenses		<b>(6,509)</b>	(917)	<b>(10,220)</b>	(1,114)
Profit from operations		<b>28,495</b>	27,768	<b>99,854</b>	69,273
Finance costs		<b>(2,591)</b>	(369)	<b>(4,418)</b>	(406)
Share of profit less loss of associates		<b>8,182</b>	1,512	<b>19,146</b>	6,954
Profit before taxation		<b>34,086</b>	28,911	<b>114,582</b>	75,821
Taxation	5	<b>(2,703)</b>	(128)	<b>(9,295)</b>	(424)
Profit after taxation		<b>31,383</b>	28,783	<b>105,287</b>	75,397
Minority interests		<b>(574)</b>	(156)	<b>(1,062)</b>	(221)
Profit attributable to shareholders		<b>30,809</b>	28,627	<b>104,225</b>	75,176
Earnings per share					
- Basic (restated)	7	<b>2.55 cents</b>	2.70 cents*	<b>8.71 cents</b>	7.48 cents*
- Diluted (restated)	7	<b>2.36 cents</b>	2.65 cents*	<b>8.35 cents</b>	7.38 cents*

\* As adjusted for the bonus issue of shares approved by the shareholders of the Company at the annual general meeting held on 23 September 2004 (the "AGM"), on the basis of 10 new shares (the "Bonus Shares") for every 10 existing shares held by the shareholders whose names appeared on the register of members of the Company on 23 September 2004 (the "Bonus Issue").

The notes on page 4 to 10 form part of this third quarterly report.

## NOTES TO THE THIRD QUARTERLY REPORT

### 1. Basis of preparation and accounting policies

The third quarterly report has 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 Institute of Certified Public Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

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

The accounting policies adopted in the third quarterly report are consistent with those followed in the annual report for the year ended 31 March 2004. The third quarterly report should be read in conjunction with the annual report for the year ended 31 March 2004.

### 2. Turnover

The Group is principally engaged in the manufacture and sale of a series of products of the Autologous Blood Recovery System ("ABRS"), including the autologous blood ABRS Machines, Portable ABRS Machines and disposable blood processing chambers and related accessories ("Disposable Chambers"), and the 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:

	<b>Unaudited</b>		<b>Unaudited</b>	
	<b>For the three months</b>		<b>For the nine months</b>	
	<b>ended 31 December</b>		<b>ended 31 December</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Sales of ABRS Machines and Portable ABRS Machines	<b>46,664</b>	42,909	<b>142,981</b>	102,866
Sales of Disposable Chambers	<b>8,976</b>	7,181	<b>25,775</b>	19,546
Relating to Cord Blood Bank services	<b>3,956</b>	2,100	<b>10,520</b>	2,607
	<b>59,596</b>	52,190	<b>179,276</b>	125,019

### 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;

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

Chinese Herbal Medicine segment - the research and development, manufacture and sale of Chinese herbal medicines.

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

	<b>For the nine months ended</b>			
	<b>31 December 2004</b>			
	<i>HK\$'000</i>			
	<b>Medical Device Segment</b>	<b>Cord Blood Bank Segment</b>	<b>Chinese Herbal Medicine Segment</b>	<b>Consolidated</b>
Turnover	<u>168,756</u>	<u>10,520</u>	<u>—</u>	<u>179,276</u>
Segment results	<u>118,138</u>	<u>4,152</u>	<u>(735)</u>	<u>121,555</u>
Unallocated costs				<u>(21,701)</u>
Profit from operations				<u>99,854</u>
Finance costs				<u>(4,418)</u>
Share of profit less loss of associates				<u>19,146</u>
Profit before taxation				<u>114,582</u>
Taxation				<u>(9,295)</u>
Profit after taxation				<u>105,287</u>
Minority interests				<u>(1,062)</u>
Profit attributable to shareholders				<u>104,225</u>

### 3. Segment information (continued)

(i) Primary reporting format - business segments (continued)

	<b>For the nine months ended</b>			
	<b>31 December 2003</b>			
	<i>HK\$'000</i>			
	<b>Medical Device Segment</b>	<b>Cord Blood Bank Segment</b>	<b>Chinese Herbal Medicine 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 costs				(406)
Share of profit from an associate				6,954
Profit before taxation				75,821
Taxation				(424)
Profit after taxation				75,397
Minority interests				(221)
Profit attributable to shareholders				75,176

(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 31 December		Unaudited For the nine months ended 31 December	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Bank interest income	309	174	733	999
Government subsidies (Note)	3,458	3,535	11,389	8,480
	<u>3,767</u>	<u>3,709</u>	<u>12,122</u>	<u>9,479</u>

Note:

Pursuant to the relevant PRC government policies and an approval document issued by the local government authorities dated 1 July 2002, one of the Group's PRC subsidiaries is entitled to government subsidies which are calculated according to a certain proportion of sales of the ABRS Machines and the Portable ABRS Machines specified in the relevant policies for a period expiring in December 2006.

#### 5. 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	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>Current tax - Outside Hong Kong</b>				
PRC income tax for the period	2,033	—	7,603	—
Share of associate's taxation	670	128	1,692	424
	<u>2,703</u>	<u>128</u>	<u>9,295</u>	<u>424</u>



## 5. Taxation (continued)

### (i) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made for the nine months ended 31 December 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 income tax rates of 15% and 33% in accordance with the relevant rules and regulations applicable to the businesses and geographical location of such subsidiaries.

The PRC income tax is chargeable on the basis of the assessable profits of the Group's PRC subsidiaries, by reference to the applicable tax rates and preferential income tax treatment entitled thereto.

### (iii) Deferred taxation

No recognition of the potential deferred tax asset relating to tax losses has been made as the recoverability of this potential deferred tax asset is uncertain.

## 6. Dividend

	Unaudited For the three months ended 31 December		Unaudited For the nine months ended 31 December	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<b>Dividend attributable to the previous financial year</b>				
Final dividend paid during the period, of HK1.8 cents per share* (2003: HK1.5 cents per share*)	<u>21,469</u>	<u>—</u>	<u>21,469</u>	<u>14,550</u>

\* As adjusted for the Bonus Issue.

The Directors do not recommend the payment of an interim dividend for the nine months ended 31 December 2004 (2003: Nil).

## 7. 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 2004 is based on the unaudited consolidated profit attributable to shareholders of HK\$30,809,000 and HK\$104,225,000 respectively divided by the weighted average number of 1,209,399,061 and 1,196,850,086 shares respectively in issue during the periods.

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 1,061,089,892 (restated) and 1,004,837,346 (restated) shares respectively in issue during the periods. The weighted average number of shares is restated to reflect the Bonus Issue as if it were effected 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 2004 is based on the unaudited and adjusted consolidated profit attributable to shareholders of HK\$31,310,000 and HK\$104,881,000 respectively, being profit attributable to shareholders for the periods adjusted for the accrued interest expense of HK\$501,000 and HK\$656,000 respectively on the convertible bond, divided by the weighted average number of 1,327,618,644 and 1,256,571,707 shares respectively in issue during the periods after adjusting for the effects of all dilutive potential shares.

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 1,079,047,872 (restated) and 1,018,947,210 (restated) shares respectively in issue during the periods after adjusting for the effects of all dilutive potential shares. The weighted average number of shares is restated to reflect the Bonus Issue as if it were effected during the periods.

## 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
Shares issued under share option scheme	7,544	—	—	—	—	7,544
Shares issued under conversion	97,269	—	—	—	—	97,269
Shares issued as scrip dividends of convertible bond	5,553	—	—	—	—	5,553
Capitalisation as Bonus Issue	(59,637)	—	—	—	—	(59,637)
Profit for the period	—	—	—	—	104,225	104,225
Transfer to surplus reserve	—	—	—	12,156	(12,156)	—
Dividend (Note 6)	—	—	—	—	(21,469)	(21,469)
As at 31 December 2004	<u>427,135</u>	<u>54,193</u>	<u>727</u>	<u>29,478</u>	<u>270,525</u>	<u>782,058</u>
As at 1 April 2003	162,521	54,193	21	7,307	116,523	340,565
Exchange differences	—	—	(71)	—	—	(71)
Issuance of shares	71,584	—	—	—	—	71,584
Profit for the period	—	—	—	—	75,176	75,176
Transfer to surplus reserve	—	—	—	9,955	(9,955)	—
Dividend (Note 6)	—	—	—	—	(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>

## **FINANCIAL REVIEW**

### **Turnover**

For the nine months ended 31 December 2004, the Group's turnover reached HK\$179,276,000, representing a significant increase of 43% compared with that of the corresponding period in 2003.

Of the total turnover for the nine-month period under review, HK\$168,756,000 or 94% was revenue derived from the Medical Device segment whilst the remaining HK\$10,520,000 or 6% was contributed by the Cord Blood Bank segment. During the corresponding period in 2003, the Cord Blood Bank business was still at its initial stage of development. Therefore, service income from this segment was only HK\$2,607,000, or 2% of the total turnover. The Group anticipates that the proportion of turnover from the Cord Blood Bank segment to the total turnover will continue to increase over time.

To enlarge the market share of ABRS Machines — the flagship products of the Medical Device segment — in the PRC, so that more hospitals can own and use the ABRS Machines, and to pave for the launch of a new product, the Group implemented new sales strategies in the third quarter (please refer to “Medical Device segment” under “Business Review” section for details). The management believes that such strategies will provide new driving force for the Group's long term development, stimulate the sales volume and the usage of the ABRS Machines in the long run, and hence, bring considerable returns to the Group.

### **Gross Profit Margin**

The Group's gross profit margin for the nine-month period under review was 72%, a slight increase from 69% of the corresponding period in 2003. The Group's gross profit margin during the period under review did not fully reflect the pricing adjustment of the ABRS Machines in the third quarter. The management believes that the gross profit margin, based on the new pricing level, will remain at a considerably high level and will provide recurring resources to the Group for future investments.

## **Other Operating Expenses**

Other operating expenses mainly composed of the amortisation of goodwill. During the period under review, total amortisation of goodwill was HK\$10,220,000. The Group has acquired two businesses with strong business potential in recent years, namely the nationwide cord blood stem cell storage and accessory services, and the manufacture and sale of TangHerb (also known as Tang Cao Pian), being the only government-approved anti-AIDS proprietary Chinese herbal medicine in the PRC. During the period under review, these newly acquired businesses were still at the initial stage of development, therefore, their contribution to the profit was not yet significant. Nevertheless, the management believes that these newly acquired businesses will contribute considerable cash flow and earnings to the Group in the future.

## **Finance Costs, Liquidity and Financial Resources**

The Group always maintain a stable financial position. To satisfy the future capital expenditure, the Group obtained a three-year long term bank loan of RMB100 million in the PRC in the third quarter to increase its flexibility. The Group has sufficient cash to satisfy future cash requirements.

Under the PRC's macro-economy policy, the Group still succeeded in obtaining new bank loan. It not only reflects the Group's sound financial position and reputation but also shows the Group has diverse funding channels to meet its financial needs.

## **Profit Attributable to Shareholders**

The Group's profit attributable to shareholders increased to HK\$104,225,000 for the nine months ended 31 December 2004, representing an increase of HK\$29,049,000 or approximately 39% as compared to the corresponding period in 2003.

The growth in profit attributable to shareholders had slowed down slightly, which was mainly caused by the amortisation of goodwill and indirectly affected by the change in the sales strategies of the ABRS Machines. The management is confident that the newly acquired businesses and the new sales strategies will bring higher returns to shareholders in the future.

Regarding the Group's overall performance for the nine-month period under review, it is apparent that the performance of all operating businesses is in line with the management's expectation and the projected increase in profit has been achieved.

In addition, Beijing Yuande Bio-Medical and Engineering Co. Ltd. (“Beijing Yuande”), an associated company, contributed a pre-tax profit HK\$19,710,000 to the Group.

## **BUSINESS REVIEW**

### **Overall Review**

The Group’s existing businesses comprise five complementary segments. They are: 1) the development, production and sale of medical devices; 2) the provision of haematopoietic stem cell storage facilities and accessory services; 3) the research and development of Chinese herbal medicines for the treatment of AIDS; 4) the nationwide sale and distribution of medical equipment; and 5) the tumour treatment business.

During the period under review, the Cord Blood Bank business has grown steadily, with the cord blood bank in Beijing having a storage capacity of 100,000 units of haematopoietic stem cells put into operation. In December 2004, the Group successfully acquired a GMP authenticated pharmaceutical enterprise in Shanghai for the production of TangHerb, which marked a promising beginning in the Chinese herbal medicine business. Sales volume of the ABRs products, which have been occupying a leading position in the PRC market, continued to rise steadily. Yet, we are not complacent about the present achievements. To further accelerate the penetration rate of the ABRs Machines, the Group adopted new sales strategies for their promotion. Performance of the Tumour Treatment division surpassed expectation. The continued growth of existing operations coupled with satisfactory returns demonstrated the Group’s thorough understanding of the PRC market and proved that our operations have tremendous business potentials.

### **Medical Device segment**

The flagship products of the Medical Device segment — the ABRs Machines — have been launched to the market for four years. They have received a number of awards and are strongly promoted by the government. The satisfactory performance of these products further demonstrated that our products are hi-tech, reliable and are able to accommodate the customers’ needs. Yet, we are not complacent about the present achievements. To further accelerate the penetration rate of the ABRs Machines and to pave for the marketing of a new product that will be launched later this year, the management believes that it is the appropriate time to adjust the sales strategies. After careful consideration and analysis of the long-term cost-effectiveness, the management

decided to lower slightly the selling price of the ABRS Machines. The Group is working closely with the distributors over the country for the promotion of even more widespread use of the ABRS Machines and their selection as the compulsory equipment of more hospitals. The management considers the short-term impact of such adjustment acceptable, and believes that the new sales strategies will expedite market penetration of the ABRS Machines and significantly increase the sales volume, and thus bringing more substantial and sustainable returns to the Group and shareholders in the long run.

For the nine months ended 31 December 2004, turnover of the Medical Device segment amounted to HK\$168,756,000. Due to the implementation of new strategies, the total sales volume of ABRS Machines in this quarter rose to 315 sets, an increase of approximately 25% as compared to the previous quarter. During the nine-month period under review, the Group sold a total of approximately 1,390 sets (2003: 940 sets) of ABRS Machines and Portable ABRS Machines, and approximately 58,000 units (2003: 44,000 units) of Disposable Chambers.

Apart from high quality of products, government support is another crucial factor to the Group's success. In January 2003, the MOH circulated a notice to hospitals across the nation encouraging the use of the ABRS products. The MOH also organised academic seminars led by experts in the field for the promotion of the ABRS technology. In addition, the Portable ABRS Machines were accredited in July 2004 as a "focal new product for nationwide promotion" (「全國重點推廣新產品」) by five government ministries, including the Ministry of Science and Technology and the MOH. With the recognition and support from the government as well as the new sales strategies, the management believes that the Group's ABRS products would penetrate the PRC market more rapidly to serve more people.

In respect of product development, the Group will continue to devote resources to the research and development of blood-related technologies which form the basis of its long-term development. Products in the pipeline have achieved good progress during the period under review, and three of them have passed the initial professional evaluation and are undergoing different stages of clinical trials. One of the new products that is built upon the ABRS technology with modification and additional advanced applications is expected to obtain an approval for the manufacture and sale from the State Food and Drug Administration by the end of 2005. The Group expects that these new products will complement the Group's existing products and services and will not only broaden the Group's range of medical services provided to the general public but will also be additional driving forces for the Group's future growth.

## **Cord Blood Bank segment**

The Cord Blood Bank segment provides storage facilities for haematopoietic stem cells extracted from the umbilical cords of newborn babies and accessory services, which offer life-long medical protection for the newborn babies and their families. This segment also provides haematopoietic stem cells for transplants and for other medical treatments. Haematopoietic stem cells can be used for the treatments of various life-threatening diseases such as leukaemia, aplastic anaemia and thalassaemia, myocardial defect immunodeficiency, etc.

For the nine months ended 31 December 2004, the Cord Blood Bank segment performed satisfactorily. With steady increase in the monthly sign-up rate of new customers, it reported a turnover of HK\$10,520,000, representing an increase of 304% compared with the corresponding period in the previous financial year. The management expects that this business will continue to contribute steady cash flow to the Group in the future.

The Group's cord blood bank in Beijing with a storage capacity of 100,000 units of haematopoietic stem cells has been put into operation recently. It is one of the largest cord blood banks in the PRC to date. The opening of this cord blood bank significantly increased the Group's total storage capacity and further strengthened its capabilities to provide storage services to the general public.

In addition, many medical breakthroughs in treatments using haematopoietic stem cells have recently been reported in Hong Kong and other parts of the world. For example, a Korean woman who had been paralysed for twenty years could walk again after undergoing treatment using umbilical cord haematopoietic stem cells. Doctors in Brazil discovered that haematopoietic stem cell injection could be used in treatments of myocardial defect and stroke. Hong Kong doctors effectively treated children with rheumatism by using autologous haematopoietic stem cells. Extensive media coverage in the PRC and Hong Kong of these encouraging medical breakthroughs help increase the public awareness of and confidence in the application of haematopoietic stem cells. The management believes that the sign-up rate for the Group's haematopoietic stem cell storage services will increase over time.

The Company is also in discussions with certain scientific institutes specialising in stem cell research in respect of cooperation in researching new possible applications of haematopoietic stem cells in the medical field. In addition to providing private storage services for newborn babies, the Group also hopes



to utilise the donated haematopoietic stem cells for providing patients with matching services for possible homologous haematopoietic stem cell transplants, and for further research and development in the hope of finding other medical applications so as to benefit more people.

### **Chinese Herbal Medicine segment**

On 6 September 2004, the Group successfully completed its acquisition of a 51% equity interest in Qijieyuan.

Qijieyuan is engaged in the research and development of Chinese herbal medicines in the PRC. It has successfully developed TangHerb — the proprietary Chinese medicine for the treatment of AIDS. TangHerb can effectively increase the CD4 cell count of AIDS patients and hence enhances their immune systems. It can also alleviate the symptoms of AIDS patients, such as hair loss, lack of appetite and diarrhoea, etc.

TangHerb has successfully passed the clinical trials for AIDS patients and HIV carriers. It was granted the Certificate for New Medicine by China's State Food and Drug Administration in April 2004, being the first and currently the only proprietary Chinese medicine for AIDS treatment in the PRC.

In order to meet the demand from the general public and be in line with the government's policies, so that more AIDS patients can benefit, the Group successfully acquired a GMP plant, together with its production facilities in Shanghai in December 2004 for the production of TangHerb (please refer to "Major investment" for details). It is expected that the production of TangHerb will commence in Spring 2005, and sale will commence in the first half of calendar year 2005.

### **Medical Device Distribution division**

On 27 September 2004, the Company established a joint venture, Union China National Medical Equipment Company Limited ("Union China National"), with China National Medical Equipment Industry Corporation ("CMIC"), the largest state-owned medical equipment distributor in the PRC. Union China National is the first sino-foreign joint venture approved by the PRC government for wholesaling and logistics of medical devices in the country. Union China National will take over the distribution business from CMIC, which had a nationwide distribution network, and be engaged in the sale and distribution of medical devices in the PRC, as well as providing consultancy on medical equipment registration and sale.

Union China National has been granted all the relevant business licences by the PRC authorities, and has commenced operation in December 2004. Being a vertical growth of the Group, Union China National provides a nationwide network and lay a solid foundation for the Group's future expansion.

### **Tumour Treatment division**

The Company, in partnership with GE Healthcare of General Electric Company, USA, has invested in Beijing Yuande. Beijing Yuande is engaged in the development, manufacture and sale of high intensity focused ultrasonic ("HIFU") medical devices for the treatment of certain types of tumour. For the nine months ended 31 December 2004, the Tumour Treatment division has delivered outstanding performance surpassing expectation and contributed a pre-tax profit of HK\$19,710,000 to the Group.

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 surgery. Not only that the HIFU technology does not cause any pain or visible wounds to patients, it also shorten the hospital stay period.

## **MAJOR INVESTMENT**

### **Acquisition of a GMP Plant to Produce Anti-AIDS Chinese Herbal Medicine**

On 19 December 2004, the Group entered into an equity transfer agreement to acquire the entire equity interest of Shanghai Bai Sui Hang Pharmaceutical Company Limited ("Bai Sui Hang") at a total consideration of RMB3,000,000 (equivalent to approximately HK\$2,830,000). Payment for the entire consideration was settled on 22 December 2004, and the transaction was completed on the same date.

Bai Sui Hang is a GMP verified enterprise in Shanghai to produce Chinese medicines. Its plant will be used to produce TangHerb. The main reason for selecting Bai Sui Hang was that the quality of its plant met the group's strict requirements for the production of TangHerb. In addition, the Group also considered that the plant's current and potential production capacity could accommodate the Group's initial and future development plans. The plant of Bai Sui Hang has a floor area of over 620,000 square feet, and is located in Shanghai Qing Pu District — an easily accessible location with comprehensive infrastructure and well-built transportation system.

Bai Sui Hang's plant is equipped with production facilities granted with the Certificate of Good Manufacturing Practices for Human Drugs of the People's Republic of China (《中華人民共和國藥品GMP證書》) and the Drug Manufacturing Certificate (《藥品生產許可證》) by the Shanghai Municipal Drug Administration Authority. The Group will utilise the existing facilities to produce TangHerb as soon as practicable to cope with the policies and measures promulgated by the central government for AIDS treatments. The Group expects to commence production of TangHerb in the first half of 2005. On top of the existing production facilities of Bai Sui Hang, the Group will purchase new production equipment to expand the production capacity of the plant to meet future demand for TangHerb.

## **PROSPECTS**

The Group strives to become one of the leading integrated medical enterprises, with the long-term target of providing a comprehensive range of medical products and services to the general public. Therefore, the Group has implemented new sales strategies with a view to expediting the market penetration of the flagship products of the Medical Device segment and to cope with the government promotion. We hope that more patients can be benefited and more substantial returns can be brought to shareholders. Regarding the research and development of medical devices, the Group considers not only the potential market demand, but also whether such products are able to complement the medicines in use and the Group's existing products and services, with an aim to creating more synergies among various business segments, and thus maximising the Group's overall productivity and returns. One of the new products which is built upon the ABRS technology is expected to be launched by the end of 2005 in order to satisfy the people's needs.

Another key target and success factor of the Group is to market products that are complementary to the central government's policies and, at the same time, beneficial to the society, thus achieving a win-win situation. The launch of TangHerb is a good example. Recently the PRC leaders once again indicated by way of public gesture the government's commitment to fight against AIDS. In 2004, the PRC government implemented a series of policies to control the spread of AIDS and to provide treatment and assistance to AIDS patients. Echoing the World AIDS Day, the country has widely promulgated information relating to AIDS and educated its people on the prevention of AIDS. Therefore, after the acquisition of the pharmaceutical plant in Shanghai, the Group plans to produce TangHerb as soon as possible in support of the measures of the central government for the treatment of AIDS patients.

Going forward, given the wider penetration of ABRS products, the increasing public awareness and confidence in the applications of haematopoietic stem cells, the commencement of the production and sale of TangHerb, the commencement of operation of Union China National and the continued growth of the Tumour Treatment division, the Group's profit will continue to grow steadily. Although our businesses are growing, we will stay alert for market changes and will continue to improve our products and services to meet the ever-changing public demand. Whilst maintaining our leading position, we will continue to pursue our mission of improving the health of mankind and enhancing the quality of life of the people.

## DISCLOSURE OF INTERESTS OF DIRECTORS

As at 31 December 2004, the interests or short positions of the Directors and senior management 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	Number of shares				Total interest	Approximate % of the Company's issued share capital
		Personal interest	Family interest	Corporate interest			
Mr. KAM Yuen (Note)	Interest of controlled corporation	-	-	428,320,000	428,320,000	34.26	

Note: Mr. KAM Yuen is the sole beneficial shareholder of the entire issued share capital of Bio Garden Inc. which was interested in 428,320,000 shares as at 31 December 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 shares of the Company at HK\$1.15 per share.

Details of the share options granted to the Directors as at 31 December 2004 were as follows:

Name of Director	Exercise period	As at 1 April 2004	Number of underlying shares in respect of which options granted		As at 31 December 2004	Adjusted exercise price (Note i)
			Exercised	Adjustment due to Bonus Issue (Note i)		
Mr. LU Tian Long (Note ii)	1 April 2003 to 16 March 2013	2,800,000	1,200,000	1,600,000	3,200,000	HK\$0.575
Ms. ZHENG Ting (Note ii)	1 April 2003 to 16 March 2013	1,400,000	600,000	800,000	1,600,000	HK\$0.575

*Notes:*

- i. Pursuant to the terms of the Share Option Scheme, the number of underlying shares in respect of options granted has been adjusted in consequence of the Bonus Issue with effect from 24 September 2004. The exercise price has also been adjusted from HK\$1.15 per share to HK\$0.575 per share.
- ii. 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 weighted average closing price of the shares on 27 April 2004 was HK\$1.607 per share.

The exercise of the above share options and those granted to other management 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 2004, none of the Directors was granted options to subscribe for the shares.

Save as disclosed above, as at 31 December 2004, none of the Directors, senior management 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 the staff with those of shareholders, share options are awarded to management and full-time employees (including the Directors) of the Group to subscribe for the 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 31 December 2004 were as follows:

Number of employees	<u>Number of underlying shares in respect of which options granted</u>				Date of grant	Exercise period	Adjusted exercise price
	As at 1 April 2004	Exercised	Adjustment due to Bonus Issue	As at 31 December 2004			
10	12,865,000	5,385,000 (Note i)	7,480,000 (Note ii)	14,960,000	31 March 2003	1 April 2003 to 16 March 2013	HK\$0.575 (Note ii)

Notes:

- i. Share options for 5,385,000 shares were exercised by 9 employees on 28 April 2004. The weighted average closing price of the shares on 27 April 2004 was HK\$1.607 per share.
- ii. Details of the adjustments are set out above in Note i to the paragraph headed "(ii) Long positions in underlying shares" under the section headed "Disclosure of interests of Directors".

## **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 senior management 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 senior management 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 had exercised any such right during the period under review.

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

As at 31 December 2004, the interest of the shareholders (not being Directors and the senior management 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 (long position)**

<b>Name of substantial shareholder</b>	<b>Capacity</b>	<b>Number of shares</b>	<b>Approximate % of the Company's issued share capital</b>
Bio Garden Inc. (Note)	Beneficial owner	428,320,000	34.26

*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 2004.

**(ii) Other persons who are required to disclose their interests (long position)**

<b>Name of other persons who have more than 5% interest</b>	<b>Capacity</b>	<b>Number of shares/ underlying shares</b>	<b>Approximate % of the Company's issued share capital</b>
Nordea Far Eastern Value Fund	Investment manager	96,653,846	7.73
Martin Currie Investment Management Limited	Investment manager	69,112,000	5.53
The Capital Group Companies, Inc.	Investment manager	66,994,000	5.36

Save as disclosed above, as at 31 December 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.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied with Rules 5.34 and, as in force prior to 1 January 2005, Rules 5.35 to 5.45, of the GEM Listing Rules concerning board practices and procedures during the nine months ended 31 December 2004.

## **CORPORATE GOVERNANCE**

The Group is fully committed to maintaining good corporate governance and a good relationship with investors for the interests of shareholders, lenders and other stakeholders. Accordingly, the Group will comply with all best practices in corporate governance, especially in particular with the requirement in relation to transparency.



## **COMPETING INTERESTS**

None of the Directors, management shareholders or substantial shareholders of the Company or any of their respective associates has 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 audit committee comprises three independent non-executive Directors of the Company, namely Mr. CAO Gang (chairman of the audit committee), Mr. GAO Zong Ze and Mr. GU Qiao.

The audit committee, together with the management team of the Company, has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the Directors, including a review of the third quarterly report for the nine months ended 31 December 2004.

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

HONG KONG, 7 February 2005