



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



2003/2004
Annual Report

YOUR

life's blood is our life's work

3

Corporate Information

4

Group's Business Structure

5

Corporate Profile

6

Summary of Financial Information

8

Chairman's Statement

14

Management Discussion and Analysis

22

Use of Proceeds

23

Comparison of Business Objectives with Actual Business Progress

26

Biographical Details of Directors and Senior Management

29

Report of the Directors

36

Report of the Auditors

37

Consolidated Income Statement

41

Consolidated Cash Flow Statement

38

Consolidated Balance Sheet

43

Notes on the Financial Statements

39

Balance Sheet

74

Financial Summary

40

Consolidated Statement of Changes In Equity

76

Notice of Annual General Meeting

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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the GEM website operated by the 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.

Executive directors

Mr. Kam Yuen (*Chairman*)
Ms. Chau Mei Chun
Mr. Lu Tian Long
Ms. Jin Lu
Ms. Zheng Ting

Non-executive director

Mr. Leung Shi Wing

Independent non-executive directors

Mr. Gao Zong Ze
Mr. Gu Qiao

Registered office

TruLaw Corporate Services Ltd.
P.O. Box 866 GT
3rd Floor Anderson Square Building
Shedden Road
George Town
Grand Cayman, Cayman Islands
British West Indies

**Head office and principal place
of business in the PRC**

11 Wanyuan Street
Beijing Economic-Technological
Development Area
Beijing, China

Principal place of business in Hong Kong

Suite A, 36/F
Bank of China Tower
Central
Hong Kong

Stock code

8180

**Qualified Accountant and
Company Secretary**

Mr. Kong Kam Yu, ACA, AHKSA

Compliance Officer

Mr. Kam Yuen

Audit Committee members

Mr. Gao Zong Ze (*Chairman*)
Mr. Gu Qiao

Authorized Representatives

Mr. Kam Yuen
Ms. Chau Mei Chun

Legal advisers to the Company

as to Hong Kong law
Jones Day

Auditors

KPMG

**Principal share registrar and transfer
office in Cayman Islands**

TruLaw Corporate Services Ltd.

**Branch share registrar and transfer
office in Hong Kong**

Computershare Hong Kong Investor Services Limited

Principal bankers

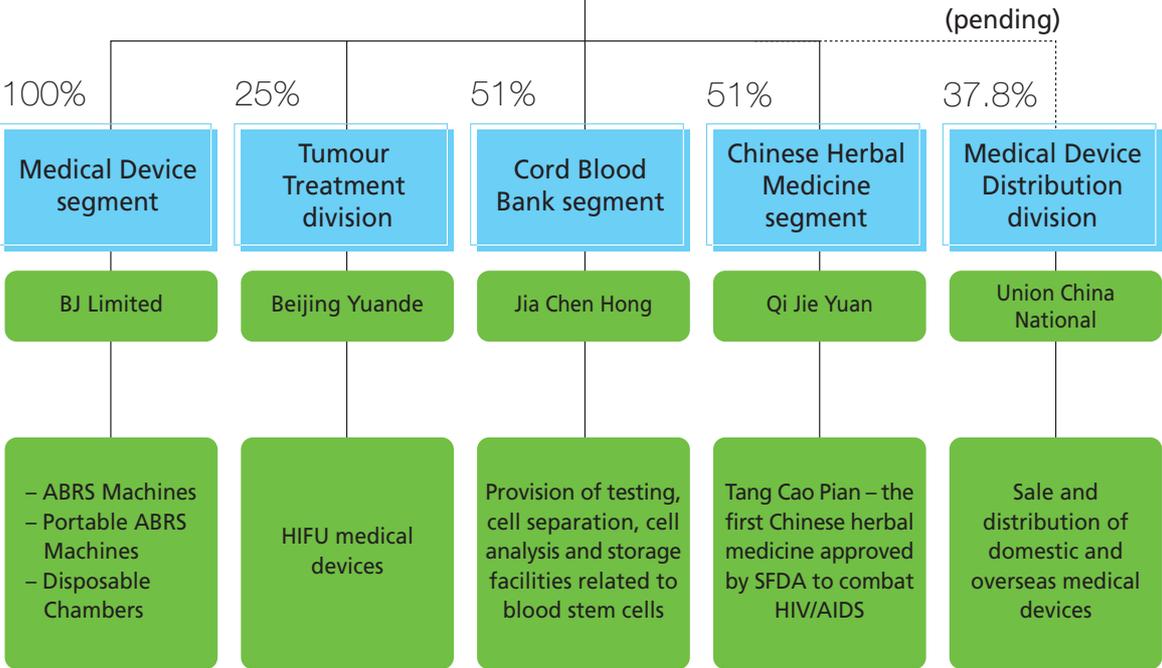
The Industrial and Commercial Bank of
China - Beijing Branch
CITIC Ka Wah Bank Limited
Sumitomo Mitsui Banking Corporation
Bank of China (Hong Kong) Limited

Public relations consultants

A-World Consulting Limited



Golden Meditech
Stock Code: 8180



Golden Meditech Company Limited (the "Company" or "Golden Meditech", together with its subsidiaries, collectively referred to as the "Group") is a leading hi-tech integrated medical enterprise in the People's Republic of China (the "PRC" or "China"). The Group operates three main businesses: medical devices, tumour treatment and cord blood banks. It has also signed agreements to engage in the near future in the sale and distribution of both domestic and overseas medical devices in the PRC, and the research and development of proprietary Chinese herbal medicines. Through research and development, manufacture, expansion of distribution networks, investments and mergers and acquisitions, the Group aspires to and is striving to become one of the world's leading hi-tech integrated medical enterprises.

The Medical Device segment is engaged in the research and development, manufacture and sale of blood-related treatments and therapies, including the technologies for blood recovery, blood purification, blood treatment and blood preservation. The flagship product of this segment, the Autologous Blood Recovery System ("ABRS"), was the first product of its kind to obtain the State Food and Drug Administration ("SFDA") approval for its manufacture and sale in the PRC. The ABRS collects, purifies and recycles patients' own blood during surgery in place of traditional blood transfusion, thus considerably reducing the risks of rejection by the immune system and of any possible blood contamination. The segment's other new product, the Portable ABRS Machine, is designed for military and emergency use, such as treating injuries in remote regions.

As a result of close cooperation with a number of research institutions, and a deep understanding of the market for medical devices in the PRC, the Group will continue to produce world-class medical equipment. A dynamic approach to product development is the key to Golden Meditech's success in this field.

Apart from the medical device operation, the Group, in partnership with the famous Medical Systems of the General Electric Company, USA ("GE Medical Systems"), has invested in Beijing Yuande Bio-Medical and Engineering Co. Ltd. ("Beijing Yuande") to develop the Tumour Treatment division. Beijing Yuande is engaged in the research and development, manufacture and sale of high intensity focused ultrasonic ("HIFU") medical devices. The HIFU medical device conducts non-invasive and painless treatment to destroy tumour cells in patients. It has received SFDA approval and is now widely used in hospitals in the PRC.

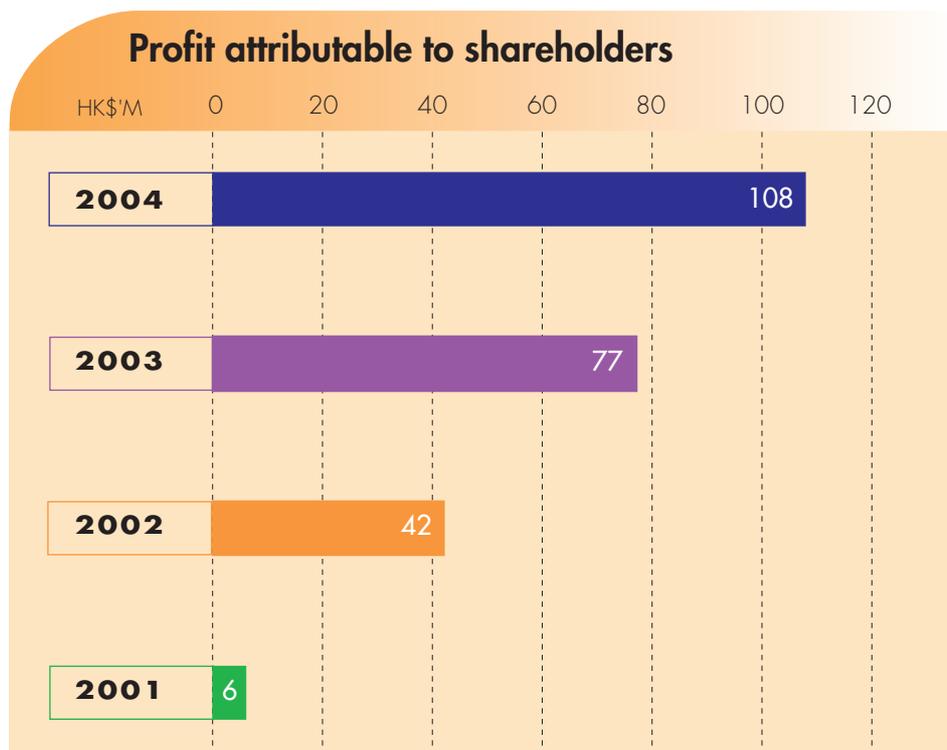
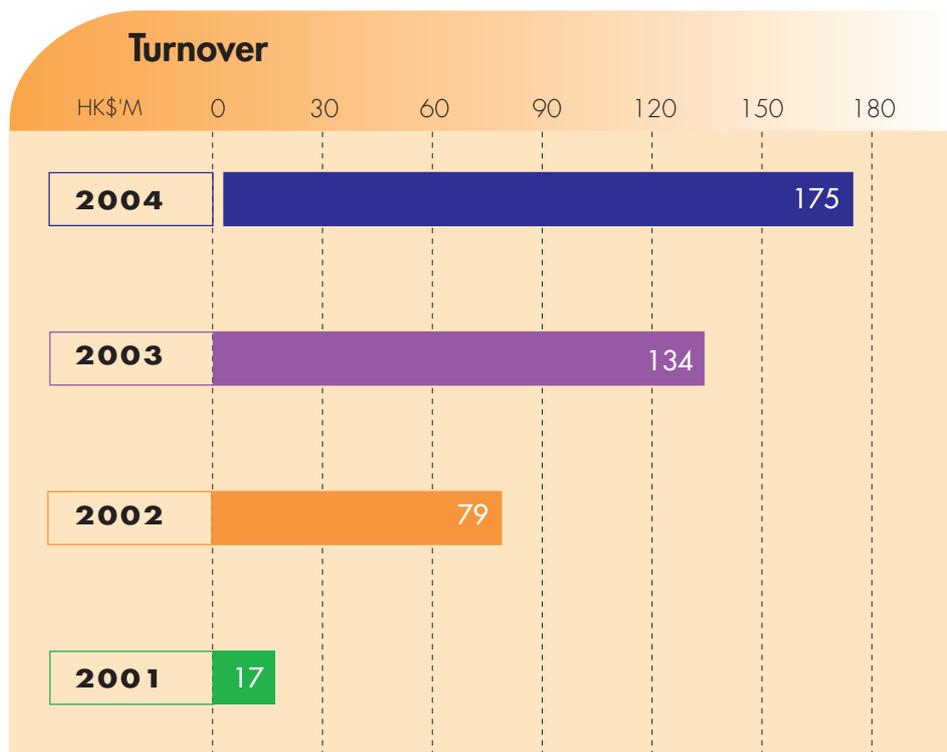
The Group has become involved in the very promising business of cord blood stem cell storage and its accessory services (the "Cord Blood Bank segment") by acquiring a 51% equity interest in Beijing Jia Chen Hong Biological Technologies Company Limited ("Jia Chen Hong"). Jia Chen Hong holds one of the only two permits issued by the Ministry of Health ("MOH") in the PRC to test, undergo cell separation and cell analysis before finally storing the blood stem cells extracted from the umbilical cords of newborn babies. Blood stem cells are used as part of many medical treatment procedures against various life-threatening diseases and thus, can provide long-term health protection to the general public.

To expand the distribution network, the Group has entered into a joint venture with the China National Medical Equipment Industry Corporation ("CMIC"), the largest state-owned medical equipment distributor in the PRC. The new joint venture is proposed to be named Union China National Medical Equipment Company Limited ("Union China National"). Business activities of the new joint venture include the sale and distribution of medical equipment, as well as the provision of related consulting services. The joint venture provides a platform and a solid foundation for the Group's future expansion. The Group hopes that Union China National can commence operation in the second half of 2004 after obtaining necessary approval from the relevant authorities.

In June 2004, the Group entered into an agreement for the acquisition of a 51% equity interest in Beijing Qi Jie Yuan Medicine Technology Development Limited ("Qi Jie Yuan"). Qi Jie Yuan is engaged in the research and development of proprietary Chinese herbal medicines. After years of research, it has developed the first proprietary Chinese herbal medicine - Tang Cao Pian - in the PRC that can effectively improve the symptoms of AIDS patients, and cause fewer side effects compared with other contemporary medicines. Tang Cao Pian was granted the Certificate for New Medicine by the SFDA in April 2004. It is believed that there are huge markets for Tang Cao Pian both within and outside the PRC. Its future is highly promising.

The Group will continue to broaden the range of products and services and expand into different medical businesses with bright prospects, with a view to becoming a leading hi-tech integrated medical enterprise in the PRC and, ultimately, the world.

SUMMARY OF FINANCIAL INFORMATION



SUMMARY OF FINANCIAL INFORMATION

	2004 HK\$'000	2003 HK\$'000	% Change	
Operating results	Turnover	174,595	133,580	31%
	Gross profit	119,361	97,080	23%
	Profit attributable to shareholders	107,941	76,543	41%
	Gross profit margin	68%	73%	(5%)
	Net profit margin	62%	57%	5%
	Basic Earnings per share	HK20.7 cents	HK16.5 cents	25%
	Final Dividend	HK3.6 cents	HK3.0 cents	20%
Financial position	Total assets	841,670	439,747	91%
	Cash and bank balances	195,295	160,215	22%
	Shareholders' funds	707,492	389,065	82%
Financial ratios	Gearing ratio	3%	NIL	N/A
	Current ratio	4.8	5.1	(6%)
Operating data	ABRS Machines (sets)	1,002	1,095	(8%)
	Portable ABRS Machines (sets)	310	—	N/A
	Disposable Chambers (units)	60,041	26,651	125%



CHAIRMAN'S STATEMENT

Dear shareholders

I am pleased to present the annual report of the Group for the year ended 31 March 2004. The Group recorded outstanding results for the year under review despite the impact of the Severe Acute Respiratory Syndrome ("SARS"). The Group has also completed a series of strategic developments, laying a solid foundation for the long-term benefits of our shareholders.

In the past year, we provided our customers with medical products and services of the highest quality, as we have always done. Emphasising on technological development, we made significant progress towards the goal of improving the general health of the people and becoming a highly recognised hi-tech integrated medical enterprise not only in the PRC, but also in the world.

FINANCIAL RESULTS

The Group recorded a turnover of HK\$174,595,000 during the financial year under review, an increase of 31% from last year. Profit before tax was HK\$110,792,000, an increase of 45% compared to HK\$76,543,000 in the previous financial year. Profit attributable to shareholders was HK\$107,941,000, risen by HK\$31,398,000, or 41% compared to the previous year. Basic earnings per share ("EPS") were HK20.7 cents, an increase of 25%.

DIVIDEND

The board of directors (the "Board") is of the opinion that the Group's overall profitability and cash flow level fulfil its commitment of making sustainable dividend distributions to its shareholders. The Group will consider the dividend distribution ratio according to its future capital requirements, financial position and market conditions, with a view to formulating a steady and continuously growing dividend payment policy.

In the forthcoming Annual General Meeting ("AGM"), the Board will propose a final dividend of HK3.6 cents per share, an increase of 20% compared to the HK3.0 cents per share for 2003. The final dividend will be paid in cash, with an option to receive new fully paid shares in lieu of cash dividend ("Scrip Dividend Scheme"). In order to increase the liquidity of the Company's shares and to allow shareholders' further equity participation in the Company, the Board has proposed bonus issue ("Bonus Issue") on the basis that 10 new shares will be issued for every existing 10 shares held by the shareholders whose names appear on the register of members at the close of business on Thursday, 23 September 2004. To satisfy such issue, the Company has also proposed to increase the authorised share capital from the existing HK\$100,000,000 to HK\$200,000,000. This Scrip Dividend Scheme and the Bonus Issue are conditional upon the passing of the relevant resolutions at the AGM and the approval of the Listing Committee of the Exchange for the listing of and permission to deal in the new shares. The dividend warrants and the share certificates for the Scrip Dividend Scheme and the Bonus Issue will be sent to shareholders by ordinary mail on or around Monday, 8 November 2004.

BUSINESS REVIEW

Core business - Medical Devices

In the first quarter of the financial year under review, the Medical Device business was slow due to the impact of SARS. However, sales rebounded quickly once the SARS outbreak was brought under control, resulting in a total turnover of HK\$170,859,000, grew by 28% compared to last year. Turnover of our flagship product, the ABRS, which is made up of ABRS Machines and Disposable Chambers, amounted to 80% of the segment's aggregate turnover, while the Portable ABRS Machines accounted for the rest.

In addition to developing and strengthening the core business, the Group is determined to broaden its operation and increase its profitability by investing or bringing in other quality medical companies through mergers and acquisitions.



Joint investment with GE Medical Systems

In March 2003, the Group, in partnership with GE Medical Systems, completed the investment in Beijing Yuande. The Group holds a 25% equity interest of Beijing Yuande. Beijing Yuande is engaged in the research and development, manufacture and sale of HIFU medical devices. Being a non-invasive and painless process, the HIFU medical devices use ultrasonic pulses to destroy tumour cells. This technology has been applauded by medical professionals and opened a new approach to tumour treatments in the world.

Entering the Cord Blood Bank business

Subsequent to the above investment, the Group acquired a 51% equity interest in Jia Chen Hong in September 2003 for approximately HK\$119,000,000, thereby entering the Cord Blood Bank business in the PRC. The acquisition further strengthened the Group's leading position in the medical industry.

There is tremendous development potential for such business in China. Jia Chen Hong is one of the only two holders of Umbilical Cord Stem Cell Storage Permits issued by the MOH in the PRC. Once the business is fully developed, the operation will bring in stable earnings and cash flow and therefore generate sustainable long-term benefits for the Group. Jia Chen Hong has established a close relationship with a number of major hospitals throughout China. It also works closely with the obstetrics and gynaecology departments of the hospitals to promote the Cord Blood Bank services which accelerates the development of such business. The Group's long-term goal is to build a nationwide Cord Blood Bank network. It is forecasted that the birth rate this year, being the Year of the Monkey, will rise, resulting in an increased demand for such services. The Group plans to increase the number of cord blood banks to 12 in two years' time, with a view to developing the national market. By the end of 2004, the Group will have 5 cord blood banks in operation. The whole development programme is estimated to be approximately HK\$240,000,000. The Group has already invested approximately HK\$153,000,000 in the project. The Group will fund the rest of this investment with internal resources and bank loans. In addition to its current use, we believe that the advancement in medical science will pave the way for further medical applications of blood stem cells.



Developing the Medical Device Distribution business

In March 2004, the Group entered into a joint venture agreement with CMIC, the largest state-owned medical equipment distributor in the PRC, to form a strategic partnership. The new joint venture, Union China National, will be engaged in the sale and distribution of medical equipment from both domestic and foreign enterprises. In addition, CMIC's superior distribution network and expertise in the medical device industry provide a platform for the Group's future expansion. CMIC will bring in the sale and distribution rights of a number of well-known overseas brands into Union China National, enhancing the company's profitability. We expect Union China National to commence operation in the second half of 2004 after obtaining the relevant certificates and approvals from the PRC authorities.

Developing the Chinese Herbal Medicine business

In June 2004, the Group entered into an agreement to acquire a 51% equity interest in Qi Jie Yuan. Qi Jie Yuan is principally engaged in the research and development of Chinese herbal medicines. After years of research and testing, it has finally developed the only Chinese herbal medicine in the PRC that can effectively improve the symptoms of AIDS patients - Tang Cao Pian. The medicine was granted the Certificate for New Medicine by the SFDA in April 2004 after thorough clinical testing.

Tang Cao Pian can improve the symptoms of AIDS patients noticeably and cause fewer side effects compared with other contemporary medicines. It is believed that such advantages will create huge markets for Tang Cao Pian both within and outside the PRC. The acquisition of Qi Jie Yuan will lay a solid foundation for the Group to enter the field of Chinese herbal medicines and mark a promising beginning in this new business.

INCREASE OF PERSONAL INTERESTS IN THE COMPANY

To facilitate the Group's long-term development, the Company placed 57,000,000 new shares at HK\$2.7 per share in January 2004 to raise the necessary capital. Part of the fund was used for investment in Union China National, and the rest of the fund will be used in the acquisition of the 51% equity interest in Qi Jie Yuan. Personally I have full confidence in the Company's future. I increased my personal interests in the Company on two occasions, one in September 2003 and the other one in November 2003.

PROSPECTS

We expect sales of the Group's flagship products, the ABRs Machines and the Disposable Chambers, to grow continuously, bringing in stable profit for the Group. Market conditions and overall trend will also favour the promotion and sale of these products in the PRC. Although our newly acquired operation - the Cord Blood Bank business - incurred a slight loss for the period under review, we believe that the operation will become profitable once more cord blood banks are built and become operational. Investments in HIFU medical devices and Union China National will bring in strong earnings in the future. We have full confidence that our newly-acquired Chinese Herbal Medicine business will generate substantial profits and cash flow.

In the past two years China has actively initiated a number of medical reforms, and at the same time, the SARS outbreak exposed the weaknesses of traditional blood transfusion. The combination of these two factors raised the importance of the autologous blood recovery technology among medical professionals. The MOH has issued a notice on the promotion of this technology to all medical and health organisations in the PRC, providing a powerful tool for the promotion of our products.

Golden Meditech is striving to become an international leading hi-tech integrated medical enterprise. We will continue to diversify our products and services, create synergy between production and sales, reduce costs and increase overall profitability. We will do our best to broaden our range of services by devoting our efforts and resources to the research of innovative products and services and possibly by mergers and acquisitions. In doing so, we can reduce our risk of over-dependence on a single business. With our in-depth knowledge of the PRC market, we will continue to pursue suitable business opportunities for the Group. Our existing businesses which are enjoying a healthy and stable development environment have laid a firm foundation for the Group's future developments.

Going forward, with an ageing population and increase in the demand for medical equipment, the medical business will enjoy high growth in the near future. In addition, continuous improvement in the living and education standards in the PRC will further fuel the demand for high quality medical services, creating many opportunities for Golden Meditech. The PRC government has actively initiated a number of medical reforms in recent years, and Golden Meditech's development strategy is in sync with both global demand and national policy. We believe that our research and development will play a part in facilitating the modernisation of the PRC medical industry and fulfilling global needs. The Group will continue to look out for quality investment targets in the coming year. Effectively utilising its outstanding staff and technical expertise, the Group will develop in all directions at speed, bringing substantial and sustainable returns for its shareholders.

Apart from the interest of our shareholders, Golden Meditech's other mission is to dedicate itself to provide high quality advanced medical products and services to the general public with the aim to improving people's quality of life and their well-being. The Group will continue its mission of achieving the greatest benefits for all stakeholders in the coming year by investing resources in research and development, acquisitions, and promotion of new products and services.

CORPORATE GOVERNANCE AND INVESTOR RELATIONS

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 on the requirement in relation to transparency. Through effective and timely communication, our shareholders will be kept fully informed of the Group's strategies and by nominating capable individuals as directors on the Board, the confidence of the shareholders in the Board is enhanced. The Group is also working to further strengthen its internal auditing process and management control system.

APPRECIATION

I would like to express my greatest gratitude, on behalf of the Board and shareholders, to the management team and all our staff members for their dedicated efforts in achieving such outstanding results in the past year. I am also most appreciative of our shareholders' and business partners' trust and support.

KAM Yuen

Chairman

Hong Kong, 18 June 2004

MANAGEMENT DISCUSSION AND ANALYSIS



INTRODUCTION

The Group delivered outstanding results for the financial year ended 31 March 2004 despite the effects of the SARS outbreak on the economies of several regions in the PRC. The Group also completed a series of strategic developments during the year under review, further strengthening the Group's leading position in the medical field in the PRC.

BUSINESS REVIEW

The Medical Device segment

Although sales of the Group's flagship product, the ABRS, were slow in the first quarter due to the impact of SARS, they rebounded rapidly for the rest of the year. For the year ended 31 March 2004, the Group sold approximately 1,000 sets of ABRS Machines and approximately 60,000 units of Disposable Chambers. The segment's turnover reached HK\$170,859,000, an increase of 28% compared with the last financial year's HK\$133,580,000. As demand for blood outstrips supply in the PRC, and because of the post-SARS urge to avoid blood contamination, more and more hospitals change from using the traditional blood transfusion method in surgeries to ABRS. The Group's new product, the Portable ABRS Machine, which was launched during the 2003/2004 financial year, has already achieved satisfactory results. 310 sets of Portable ABRS Machine were sold during the year, and its turnover accounted for 20% of total turnover of the Medical Device segment.

The Cord Blood Bank segment

In September 2003, the Group acquired a 51% equity interest in Jia Chen Hong. Jia Chen Hong is primarily engaged in the provision of examination, separation, matching and the storage services of blood stem cells extracted from the umbilical cords of newborn babies. The Cord Blood Bank business, being at its early development stage, recorded a slight loss for the period. However, management strongly believes that the Cord Blood Bank business has enormous potential given that the PRC adopts the one-child policy, and the blood stem cells are used as part of many medical treatment procedures against various life-threatening diseases, such as leukaemia, immuno-deficiency, aplastic anaemia and thalassaemia.

Jia Chen Hong was the first company granted an Umbilical Cord Stem Cell Storage Permit by the MOH in the PRC. Currently there are only two companies in the PRC holding such permits. High entry barrier and relatively little competition in the industry should enable the business to perform well. Jia Chen Hong has synergy with the Group's existing businesses. Once the construction of the nationwide cord blood banks is completed and the cord blood banks become fully operational, the Cord Blood Bank business should bring in enormous profit and cash flow to the Group. The Group has already established a good relationship with a number of major hospitals in the PRC. We believe that this will help to facilitate the rapid development of the Cord Blood Bank business in the PRC.

On average 20 million babies are born in the PRC every year. As a result of the one-child policy, most parents are willing to provide the best affordable medical protection for their children. If just 1% of the parents in China choose to store their newborn babies' blood stem cells to protect their children's well-being, the Group should see significant profit contribution from this business. In addition, this business has tremendous development potential since new discoveries in modern science may bring new medical applications of blood stem cells. By the end of 2004, the Group will have 5 cord blood banks in operation. As this year is the Year of the Monkey, which is traditionally considered an auspicious year, the birth rate is expected to rise compared to last year and demand for Cord Blood Bank services will increase significantly. The Group plans to increase the number of cord blood banks to 12 in two years' time. The total investment on this development is estimated to be approximately HK\$240,000,000 and so far the Group has already invested approximately HK\$153,000,000 in the project. The Group plans to finance the rest of this development with internal resources and bank loans.

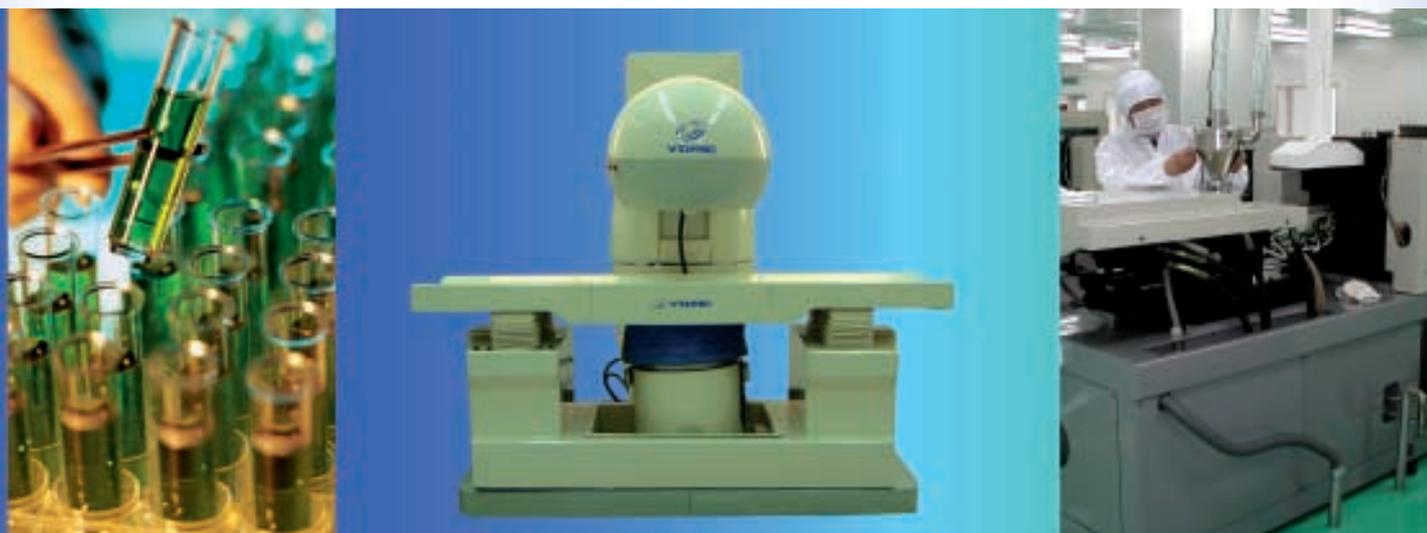
The Tumour Treatment division

Another profit contributor during the year under review is the Tumour Treatment division of Beijing Yuande. The Group, in partnership with GE Medical Systems, has invested in Beijing Yuande. Beijing Yuande is engaged in the research and development, manufacture and sale of HIFU medical devices for the treatment of tumours. HIFU is at the forefront of modern technology, utilising extra-high frequency ultrasonic pulses that focus on and destroy the tumour cells. The process is non-invasive, painless and incurs no noticeable side effects. This has been a very successful investment as the Group's initial investment of approximately HK\$40,000,000 generated a pre-tax return of approximately HK\$15,000,000 for the year under review.

MAJOR INVESTMENTS

Investment in the Medical Device Distribution business

To strengthen its distribution network, the Group entered into a joint venture agreement with CMIC, the largest state-owned medical equipment distributor in the PRC, to form a strategic partnership in March 2004.



The new joint venture, Union China National, will be engaged in the sale and distribution of medical equipment from both foreign and domestic manufacturers, and the provision of related consulting services. The Group will hold a 37.8% interest in Union China National, investing US\$3,780,000 as registered capital. The investment will be financed by the net proceeds from the placing by the Company of 57,000,000 shares at HK\$2.7 per share on 9 January 2004.

CMIC has not only a long history in the medical equipment business in the PRC, but also a robust financial position and receive strong government support. Currently it has distribution rights for over 30 well-known foreign brands of medical equipment. The Group will benefit from CMIC's superior distribution network and expertise in the medical device industry, especially in expanding the market share of the Group's products in the PRC. In addition, CMIC will bring in the sale and distribution rights for a number of well-known overseas brands to Union China National to increase the company's earnings base.

Union China National will commence operation in the second half of 2004 after obtaining the relevant certificates and approvals from the PRC authorities.

Acquisition of the Chinese Herbal Medicine business

In June 2004, the Group entered into an agreement to acquire a 51% equity interest in Qi Jie Yuan. Qi Jie Yuan is engaged in the research and development of Chinese herbal medicines. After years of endeavour, it has developed the only Chinese herbal medicine in the PRC that can effectively improve the symptoms of AIDS patients - Tang Cao Pian. The medicine was granted the Certificate for New Medicine by the SFDA in April 2004.

Tang Cao Pian can improve the symptoms of AIDS patients noticeably. Compared with other contemporary medicines, it causes fewer side effects. It is believed that there are huge markets for Tang Cao Pian both within and outside the PRC. The acquisition of Qi Jie Yuan will lay a solid foundation for the Group to enter the field of Chinese herbal medicine and mark a promising beginning in this new business.



Conclusion

Apart from rewarding our shareholders, the Group's other important mission is to provide high quality and hi-tech medical products and services to the general public, improving their health and quality of life, and raising the survival rate and recovery rate of patients. The Group will continue its mission of achieving the greatest benefits for its shareholders and other stakeholders by investing resources in research and development, acquisitions, and promotion of new products and services.

FINANCIAL REVIEW

Turnover and profit attributable to shareholders

The Group continued to deliver strong growth and outstanding performance for the year ended 31 March 2004. Compared to 2003, turnover and profit attributable to shareholders increased by 31% and 41% to HK\$174,595,000 and HK\$107,941,000 respectively. Growth in profit attributable to shareholders arose largely from the Group's existing medical products, new product launched during the year and profit contributed by the Tumour Treatment division.

Turnover by segments analysis

The Medical Device segment remained the Group's principal source of revenue. On the other hand, the Group successfully acquired a number of businesses that have created synergy with the Group such as the Cord Blood Bank and Chinese Herbal Medicine, broadening the Group's operations and accelerating the achievement of our long-term goal of becoming the leading integrated medical enterprise in the international arena. The new businesses are already making remarkable sales contributions and we expect that they will account for larger share of the turnover in the near future.

Gross profit margin

To diversify the Group's products and services and to reduce the Group's operational risk, the Group has, through mergers and acquisitions, made the Group's business more dynamic.

The Group's gross profit margin was 68% for the year ended 31 March 2004, as a result of the changes in sales and product mix.

Selling and administrative expenses

Total selling and administrative expenses for the year ended 31 March 2004 were HK\$35,470,000, an increase of 6% compared to the previous year. The main reasons for the increase were:

1. The Group's new production facilities in the Beijing Economic-Technological Development Area were put into operation at the end of 2002; therefore the administrative expenses in 2002/2003 did not include a full year depreciation charge for the production facilities. A full year depreciation charge was fully reflected in the 2003/2004 financial year;
2. The expenses incurred in the Group's acquisition of the Cord Blood Bank segment and amortisation of related goodwill arising from this segment; and
3. The expenses incurred in the initiation, research and development, and administration of other emerging hi-tech medical businesses.

Liquidity and financial resources

The Group generally finances its business expansion with internally generated resources and cash in hand.

For the year ended 31 March 2004, the Group's net operating cash flow amounted to HK\$76,769,000 (2003: HK\$72,016,000). As at 31 March 2004, the Group's cash and bank balances were HK\$195,295,000 (2003: HK\$160,215,000). Total bank borrowings stood at HK\$28,371,000 (2003: Nil).

The Group's total current assets and net assets as at 31 March 2004 were HK\$421,693,000 and HK\$707,492,000 respectively (2003: HK\$260,661,000 and HK\$389,065,000).

The Group's gearing ratio (i.e. total bank borrowings divided by total assets) as at 31 March 2004 was approximately 3% (2003: Nil).

If additional funds are required in the future, the Group is in an excellent position to obtain the necessary finances. When making such arrangements, management will structure such finances in the best way to enhance shareholders' value.

Capital structure

In September 2003, the Group acquired a 51% equity interest in Jia Chen Hong with approximately HK\$51,000,000 in cash and 40,000,000 new shares at HK\$1.701 each, for a total consideration of approximately HK\$119,000,000. In January 2004, the Company raised approximately HK\$148,000,000 (net proceeds) under a placing and subscription agreement, of which approximately HK\$30,000,000 will be invested in Union China National. The rest of the funds will be used to finance the funds needed for the acquisition of a 51% equity interest in Qi Jie Yuan as entered in the agreement in June 2004.

Exchange rate risk

The Group's sales and purchases are mainly transacted in Renminbi. Since the exchange rate fluctuation between Hong Kong Dollars and Renminbi is minimal, management considers that the exchange rate risk the Group is exposed to is very low. Accordingly, no hedging arrangements were made during the year ended 31 March 2004.

Treasury policies

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial condition of its customers. To manage liquidity risk, management closely monitors the liquidity position to ensure that the liquidity structure of the Group can meet its funding requirements.

EMPLOYEES

The Group has 192 (2003: 176) full-time employees in Hong Kong and the PRC. During the year under review, the Group incurred staff costs (including directors' emoluments) of HK\$9,667,000 (2003: HK\$6,987,000). The increase in staff costs was mainly due to the increase in the number of staff and the directors' bonus scheme.

The Group has always recognised the importance of its employees. Employees' salaries are therefore set at competitive levels, while employees with outstanding performances are rewarded with discretionary bonuses and share options.

CHARGES ON GROUP ASSETS

At 31 March 2004, the Group had no charged assets (2003: Nil).

CONTINGENT LIABILITIES

At 31 March 2004, the Group had no contingent liabilities (2003: Nil).

PROSPECTS

The general public in the PRC is increasingly aware of health and medical issues. To Golden Meditech, there is huge market potential for its blood related treatment, tumour treatment and Chinese herbal medicine development, a market place with both challenges and opportunities. We can see a bright and promising future and are intent on seizing all possible opportunities to grow significantly by equipping ourselves with foresight to market requirements, professional and precise judgement, abundant capital, and high quality and efficient entrepreneurship.

The Medical Device segment

Going forward, Golden Meditech will further improve its core business, which is the research and development, manufacture and sale of medical devices for blood-related treatments and therapies.

The Group expects that SFDA approval will be obtained in the second half of 2004 to manufacture and sell a new product, the Plasma Exchange System. The research and development and manufacture of this product are ahead of the Group's original schedule by one to two years. The system can be used for various treatments including recovery from poisoning and prolonging the lives of patients suffering advanced liver failure. Management believes that the product will fulfil market needs in the PRC and has a very strong market potential.

The Group is endeavouring to research and develop a series of blood-related technologies and treatments, with a view to commercialising these technologies so that they may become another driving force for future growth.

The Cord Blood Bank segment

With the continuous improvement in the living standard and level of knowledge of the people in the PRC, management believes that the Cord Blood Bank segment has an excellent prospect, and predicts that in the financial year 2004/2005 the demand for such services will increase sharply. As at the date of this annual report, the Group has already established 5 cord blood banks in several provinces in the PRC. In the next two years, 7 more will be built to increase market coverage.

The Chinese Herbal Medicine segment

AIDS, a viciously infectious disease that evokes global concern, seriously threatens the life and health of many. In developing countries in particular, the disease is spreading at an alarming rate as a result of poor living conditions, low education level, shortage of medicines and primitive preventive measures. Western medicines to alleviate AIDS symptoms are generally unsuitable for use in these countries because they are costly and cause a lot of side effects. The Group's latest acquisition - the Chinese herbal medicine, Tang Cao Pian - is made from refined extracts from a number of Chinese herbs which can enhance patients' immune system and defer the progression of illness. It is also a lot more affordable for patients in developing countries. Management believes that the business prospect is very promising for this product and hopes that the relevant payment method for this acquisition will be approved at the forthcoming Extraordinary General Meeting.

The Tumour Treatment division

Beijing Yuande will continue to make use of its superior research and development capabilities to further strengthen its tumour treatment and related business. At the same time, targeting global development, Beijing Yuande will also seek opportunities to market and promote its HIFU medical device in other countries.

The Medical Device Distribution division

The newly set up Union China National will strengthen the Group's distribution business by leveraging on CMIC's close relationship with hospitals in the PRC and its nationwide distribution network. It will also impose stringent control on costs to generate even greater return for its shareholders. In the future Union China National will seek suitable business partners to enlarge its market share, with a view to becoming the leading medical devices distributor in the PRC.

Conclusion

We understand that the business environment is changing constantly, and that we have to face stiff competition. Furthermore, modern technology advances very swiftly, making the life span of our products uncertain. Although our businesses have high entry barriers, competition is still fierce. We have to persistently maintain competitive advantages, grasp the latest intelligence and seize every opportunity. We believe that we have to be innovative in both our technologies and products, while at the same time, promoting our products effectively to the ultimate users so that the fruits of our research not only benefit our shareholders, but also the general public.

Through continuous research and development, acquisitions and partnership with other companies, we will strengthen our manufacturing and sales capabilities, and attain our growth in the short, medium and long terms. We are not complacent about the present achievements, but will closely monitor market changes to ensure that our products and services are fulfilling market needs. By doing so, our leading position can be maintained.

USE OF PROCEEDS

The Group raised approximately HK\$78,000,000 from the issue of 115,000,000 shares upon its initial listing on the GEM in December 2001. It then raised approximately HK\$133,000,000 from the placement of 70,000,000 shares in July 2002. Subsequently, it raised approximately HK\$148,000,000 from the placement of 57,000,000 shares in January 2004. All the above are net proceeds after deduction of expenses.

As at 31 March 2004, the Group has utilised the net proceeds in accordance with the statement of business objectives as set out in the prospectus dated 19 December 2001 (the "Prospectus") and the use of proceeds as set out in the circulars dated 30 July 2002 and 30 January 2004 (the "Circulars") respectively. Details are as follows:

	Planned use of net proceeds as set out in the Prospectus and the Circulars (HK\$million)	Actual use of net proceeds up to 31 March 2004 (HK\$million)
As stated in the Prospectus		
Construction of production facilities	38.0	38.0
Purchase of production equipment	15.0	15.0
Research and development	5.0	5.0
Advertising and promotion	5.0	5.0
	63.0	63.0
As stated in the Circular dated 30 July 2002		
Investment in Beijing Yuande	50.0	39.5
Investment in other related businesses	75.0	50.6
	125.0	90.1
As stated in the Circular dated 30 January 2004 (revised)		
Investment in Union China National	30.0	0.0
Investment in other related businesses	118.0	30.0
	148.0	30.0

The Board expects that the remaining proceeds will be used for the purposes as disclosed in the Prospectus and the Circulars. Those proceeds which are not immediately used are deposited with banks either in Hong Kong or the PRC.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

According to the Statement of Business Objectives as set out in the Prospectus

Actual business progress from 1 April 2003 to 31 March 2004

1. Sales and distribution

- 1.1 The Group plans to set up sales liaison offices in the southern region of the PRC. The primary strategic locations will be Guangdong province and neighbouring coastal provinces.
- 1.2 Preliminary studies will be carried out to explore the market potential of overseas sales. The directors preliminarily identify countries in the Asia Pacific region such as Thailand and Malaysia and Islamic countries in the Middle East to be the potential customers of the Group's products. However, the directors believe that the Group's production capacity for the year will not be able to cope with additional demand from overseas markets. An increase in production capacity will be needed should there be any significant potential demand from overseas countries.

The Group has entered into a joint venture agreement with CMIC, the largest state-owned medical devices distributor in the PRC. As CMIC already has a strong distribution network in China, management believes that the joint venture will enhance the Group's sales and distribution capacity.

The Group has carried out preliminary studies on overseas markets. Management has come to the conclusion that the costs for developing these overseas markets and setting up the local sales network are too high and not in the shareholders' best interests at this stage. Besides, the current penetration rate of the Group's products in the PRC is very low, and therefore management believes that the Group should focus its efforts on the enormous PRC market, instead of overseas markets.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

According to the Statement of Business Objectives as set out in the Prospectus

Actual business progress from 1 April 2003 to 31 March 2004

2. Research and development

2.1 The Group will apply for the Certificate of Registration from SFDA for its Portable ABRS Machine. The estimated time required is around 4-6 months.

The progress of the Portable ABRS Machine is ahead of the original schedule. SFDA approval for the manufacture and sale of the Portable ABRS Machine was obtained at the beginning of 2003. Since then the Group has been promoting and selling the product in the PRC. Sales of the Portable ABRS Machine represent 20% of the total sales of the medical device business.

2.2 The Group will carry out preclinical testing on the blood component extraction system (the "Extraction System").

Preclinical testing on the Extraction System has been carried out and is now awaiting SFDA approval. The initial responses from the hospitals were highly positive.

2.3 The Group will carry out preclinical testing on the whole blood protein recovery system (the "Protein System").

Significant progress has been made on the Protein System. Not only has preclinical testing been carried out, the system has also reached the final stage of SFDA clinical trials. Approval is expected to be granted this year, to be followed by the market launch. This development will broaden the Group's product portfolio, providing an additional source of revenue.

2.4 Approximately HK\$1,000,000 is expected to be spent annually on research studies being carried out by the Blood Transfusion Research Institute of the Military Medical Science University (the "Institute").

The Group has entered into a 5-year co-operation agreement with the Institute to research on blood purification and blood preservation technologies. Corresponding payments are made to the Institute each year. The Institute has made progress on these two technologies, and the directors believe that their findings will be very useful in developing new products.

3. Production

Depending on the market situation, the Group will consider setting up an additional medical device production line, which will be financed by internal capital or external funding.

The Group's medical device production line located in the Beijing Economic-Technological Development Area was completed and put into operation since the end of 2002. Management believes that the current production capacity is adequate to meet the expected increase in sales demand for the Group's products in the next 2-3 years. In view of that, the Group has no plan to build another production line in the near future.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

According to the Statement of Business Objectives as set out in the Prospectus

Actual business progress from 1 April 2003 to 31 March 2004

4. Promotion

The Group will focus its promotion efforts in the eastern coastal region of the PRC. The scale and scope of promotion will be similar to those of last year.

At the end of 2002, the Group's ABRS was included in the Advanced New Technology Promotion Programme of the MOH in the PRC. Hence promotion and sales activities have been launched nationwide instead of focusing solely on the eastern coastal region.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Kam Yuen (甘源), aged 41, is the Chairman of the Company, the Compliance Officer and the founder of the Group. He is responsible for the Group's overall strategic planning. Mr. Kam graduated from the Beijing Second Foreign Languages Institute (北京第二外國語學院), the PRC in 1985 and has more than 17 years of management experience in business and international trade. Mr. Kam is the sole director of Bio Garden Inc. which has an interest in the share capital of the Company as disclosed under the provisions of Part XV of the Securities and Futures Ordinance.

Ms. Chau Mei Chun (周美珍), aged 39, is an Executive Director of the Company. She has extensive experience in business management. Ms. Chau joined the Group in July 2001 and is responsible for customer relationship management and marketing of the Group. Ms. Chau is the spouse of Mr. Leung Shi Wing, the Non-executive Director of the Company.

Mr. Lu Tian Long (魯天龍), aged 52, has been an Executive Director of the Company since September 2001. He has also been appointed as Director and General Manager of BJ Limited. He is responsible for the production, operations and management of BJ Limited.

Ms. Jin Lu (金路), aged 38, is an Executive Director of the Company. She joined the Group in June 2000 and is in charge of the general administration and daily operations of the Group. Ms. Jin received her Bachelor's Degree from the Beijing Second Foreign Languages Institute (北京第二外國語學院) in 1987, and also graduated from the School of International Business Management of the University of International Business and Economics (中國對外經濟貿易大學國際工商管理學院) in 2002.

Ms. Zheng Ting (鄭汀), aged 31, is an Executive Director of the Company and is responsible for the Group's financial and internal control systems. Ms. Zheng joined the Group in June 2001. She graduated from the Chinese People's University (中國人民大學), the PRC in 1996.

Non-executive Director

Mr. Leung Shi Wing (梁仕榮), aged 53, is the Non-executive Director of the Company. Mr. Leung joined the Group in September 2001. He has extensive experience in business management and has been appointed as director of a number of companies. Mr. Leung is the spouse of Ms. Chau Mei Chun, an Executive Director of the Company.

Independent Non-executive Directors

Mr. Gu Qiao (顧樵), aged 57, joined the Group in September 2001 as an Independent Non-executive Director of the Company. Mr. Gu is a scientist in quantum-optics (量子光學), biophysics (生物物理) and biological photonics (生物光子) and an Associate Professor of the Northwest University, the PRC (中國西北大學). He is also a member of the International Institute of Biophysics, Germany. Mr. Gu received his doctorate degree from the Northwest University, the PRC in 1989.

Mr. Gao Zong Ze (高宗澤), aged 64, joined the Group in September 2001 and is an Independent Non-executive Director of the Company. Mr. Gao is the president of the All China Lawyers' Association, the PRC (中華全國律師協會). Mr. Gao graduated from the Graduate School of the China Academy of Social Sciences, the PRC (中國社會科學院) in 1981.

TECHNOLOGY DEVELOPMENT ADVISORY BOARD

BJ Limited has established a technology development advisory board (the "Technology Board") in 2000. As at 31 March 2004, the Technology Board comprised more than 40 experienced medical officers. The primary responsibilities of this committee are (i) to develop the Group's key technical strategies; (ii) to monitor the progress of major technical programmes; and (iii) to review proposals for the development of new products and production techniques. The five core members of the Technology Board are Prof. Zhang Ming Li, Chairman of the Technology Board, Dr. Pei Xue Tao, Prof. Wang Bao Guo, Dr. Tian Ming and Prof. Lu Dao Pei.

Prof. Zhang Ming Li (張明禮) is the Chairman of the Technology Board. He graduated from the Peking University and is a cardiac and thoracic professional. Prof. Zhang received the "Beijing Municipal Technology Progress Award" in 1986 as a result of his inventions of an external circulation pump monitoring and controlling, automatic pressure releasing equipment, and blood level monitoring and controlling equipment. He is currently the Chief Practitioner at the Faculty of Cardiac and Thoracic Surgery of First Hospital, Professor and Tutor to postgraduate students at the Faculty of Medicine of the Peking University, a medical equipment evaluation specialist of the Evaluation Committee, a medical project evaluation specialist of the National Invention Foundation (國家創新基金醫療項目), and Instructor-in-charge of the "National Autologous Blood Recovery Technology Course", a national medical continuous learning project.

Dr. Pei Xue Tao (裴雪濤) is the Chairman of the Institute and the Stem Cell Research Center of the Military Medical Science University (軍事醫學科學院野戰輸血研究所及幹細胞研究中心). He is also the deputy chairman of the People's Liberation Army Medical Science Committee and the deputy chairman of the Phlebotomy Committee. He is a Professor and Tutor for Doctoral candidates of the Military Medical Science University. He graduated from the Military Medical Science University in 1997.

Prof. Wang Bao Guo (王保國) is the Chief Practitioner of Anaesthesia of the Capital Medical University Tiantan Hospital (首都醫科大學天壇醫院). He is a tutor for doctoral candidates and is on the editorial boards of 3 academic journals on Anaesthesia. He is also the secretary of Beijing Anaesthesia Committee (北京麻醉專業委員會) and his research has earned him a number of technology awards granted by Beijing Municipality.

Dr. Tian Ming (田鳴) is the Chief Practitioner of Anaesthesia of the Beijing Friendship Hospital (北京友誼醫院). He graduated from the China Medical University with a doctorate degree in Anaesthesia in 1996 and has worked in a number of renowned hospitals in the PRC prior to taking up his current position. He has a solid background in Anaesthesia and has cooperated on numerous occasions with cardiac surgeons from the U.S., the U.K., Japan and Italy. In addition to publishing articles on his specialty, he also spends his time on the research of autologous blood transfusions. With his substantial experience in teaching, Dr. Tian received two outstanding teacher's awards in 2000.

Prof. Lu Dao Pei (陸道培), is an haematologist and expert in bone marrow transplants, and the Chief Technical Officer of Jia Chen Hong. He is currently both Director and Professor of the Institute of Haematology of the Peking University (北京大學血液病研究所), as well as Vice President of the Chinese Medical Association (CMA) (中華醫學會), Chairman of the CMA's Council of Haematology, and elected member of the Chinese Academy of Engineering. He is considered to be the founder of blood stem cells research in the PRC and the primary driving force behind this development. Prof. Lu was also the first to prove to the international community that the independent application of the realgar herb could cure acute myelogenous leukemia (AML). Prof. Lu has received the China Science and Technology Award and a number of other similar awards.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Lu Shu Qi (路書奇), aged 56, Deputy General Manager of BJ Limited, is responsible for the production, general management and daily operations of BJ Limited. He graduated from the Tsinghua University (清華大學) and has more than 20 years' management experience in the PRC.

Mr. Kong Kam Yu (江金裕), aged 35, is a qualified accountant and Company Secretary of the Group. He joined the Group in 2001, and is responsible for the Group's finance, corporate projects and company secretarial matters. Prior to joining the Group, Mr. Kong worked with a leading international accounting firm in Hong Kong.

Mr. Zhang Ji Hong (張積宏), aged 52, Deputy General Manager of BJ Limited, is in charge of administration, merchandise and supplies and subcontracting works. He has more than 20 years' experience in the manufacturing industry in the PRC. He studied at the financial and accounting department of the Second Branch of the Peking University (北京大學二分院).

Ms. Du Ning (杜寧), aged 34, is Personal Assistant to the General Manager of BJ Limited and is also BJ Limited's Human Resources Manager. She is currently in charge of human resources matters as well as daily general administration matters of BJ Limited. Ms. Du graduated from the Medical College of the People's Liberation Army (解放軍醫學院) in 1994. She has over 10 years' experience in human resources affairs and daily office administration. Ms. Du previously worked in the Government Offices Administration of the State Council.

Ms. Cui Qi (崔琪), aged 51, Finance Manager of BJ Limited, is currently in charge of BJ Limited's financial systems. She graduated from the Finance and Accounting Department of the Beijing Western District Employees' University (北京西城區職工大學) and is a registered accountant in the PRC.

Mr. Liang Bing Yue (梁冰岳), aged 39, is the Sales Manager of BJ Limited. Mr. Liang graduated from the Fourth Military Medical University of the People's Liberation Army (解放軍第四軍醫大學) with a degree in Medicine in 1989. He has over 9 years' sales and marketing experience in the medical industry in the PRC and is very familiar with the PRC's medical industry. He is highly experienced in drawing up sales and marketing strategies and opening up new sales channels.

Mr. Gao Guang Pu (高光譜), aged 41, Quality Control Manager of BJ Limited, is in charge of quality control of the Group's products. He is also responsible for various aspects of the Group's production technology, including product standards, production procedures and technological improvements etc.

Mr. Wu Xiao Dong (吳曉東), aged 47, bachelor's degree holder, is currently the Managing Director of Jia Chen Hong and is responsible for its general management and daily operations. Mr. Wu previously held a senior position on the Scientific Research and Planning Council of Fuzhou Municipality (撫州地區科委科研計劃科) in the province of Jiang Xi. Mr. Wu is also the Managing Director of Beijing Yuande.

Dr. Liu Kai Yan (劉開彥), aged 42, received his Medical degree from the Kyushu University (九州大學) in Japan. He is currently the Deputy Technical Officer of Jia Chen Hong. Dr. Liu was previously engaged in doctorate research at the Institute of Haematology of the Peking University; currently he is the Deputy Chief of Clinical Trials, doctor, and professor at the People's Hospital of the Peking University and the Institute of Haematology of the Peking University. He has been involved in clinical trials and laboratory research studies of blood stem cell transplants since 1988.

The directors have pleasure in submitting their annual report together with the audited financial statements of Golden Meditech Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries and an associate are set out in notes 16 and 17 on the financial statements.

The analysis of the turnover from the principal activities of the Group during the financial year is set out in note 3 on the financial statements.

FINANCIAL STATEMENTS

The profit and cash flows of the Group for the year ended 31 March 2004 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 37 to 73 of this annual report.

DIVIDENDS AND RESERVES

The directors have recommended a final dividend of HK3.6 cents (2003: HK3.0 cents) per share in respect of the year ended 31 March 2004 to be payable to shareholders whose names appear on the register of members of the Company on Thursday, 23 September 2004. Subject to the passing of the necessary resolution at the forthcoming annual general meeting, such dividend will be payable on or about Monday, 8 November 2004, in cash in Hong Kong dollars, with a scrip dividend alternative.

Details of the movements in reserves of the Company and the Group during the year are set out in note 26 on the financial statements.

BONUS ISSUE OF SHARES

On 18 June 2004, the directors announced that it was proposed to make a bonus issue of shares on the basis of ten bonus shares for every ten shares of HK\$0.1 each held by the shareholders of the Company whose names appear on the register of members of the Company on Thursday, 23 September 2004 subject to the conditions and arrangements set out in the circular despatched together with this annual report (the "Bonus Issue").

FIXED ASSETS

Details of movements in fixed assets of the Group during the year are set out in note 14 on the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 25 on the financial statements. Shares were issued during the year to broaden the capital base of the Company.

The directors proposed to increase the authorised share capital of the Company from HK\$100,000,000 to HK\$200,000,000 by the creation of an additional 1,000,000,000 shares of HK\$0.1 each.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	68%	
Five largest customers in aggregate	96%	
The largest supplier		39%
Five largest suppliers in aggregate		95%

At no time during the year have the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had any interest in these major customers and suppliers.

DIRECTORS

The directors during the financial year and up to the date of this report were:

Executive directors

Mr. Kam Yuen, Chairman
Ms. Chau Mei Chun
Mr. Lu Tian Long
Ms. Jin Lu
Ms. Zheng Ting

Non-executive director

Mr. Leung Shi Wing

Independent non-executive directors

Mr. Gao Zong Ze
Mr. Gu Qiao

In accordance with Article 108 of the Company's articles of association, Ms. Chau Mei Chun and Mr. Leung Shi Wing retire from the board at the forthcoming annual general meeting and have indicated to the directors that they will not stand for re-election.

The biographical details of the directors and senior management are set out on pages 26 to 28 of this annual report. Details of the emoluments of the directors and the five highest paid individuals are set out in notes 7 and 8 on the financial statements.

DIRECTORS' SERVICE CONTRACTS

On 15 December 2001, each of the directors entered into a service contract with the Company for a fixed term of three years commencing on 28 December 2001. The service contracts with executive directors will continue thereafter unless terminated by not less than 90 days' notice in writing serving by either party. The service contracts with non-executive directors can be terminated by either party by serving not less than 30 days' prior written notice. The directors are committed by the respective service contracts to devote himself/herself exclusively and diligently to the business and interests of the Group and to keep the board of directors (the "Board") promptly and fully informed of his/her conduct of business affairs, among other commitments.

The unexpired period of the service contract for each of the directors is approximately nine months as at 31 March 2004. Save as disclosed above, no other director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 31 March 2004, the interests or short positions of each director and chief executive of the Company in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Exchange") pursuant to the GEM Listing Rules were as follows:

(I) *Interests in issued shares*

Ordinary shares of HK\$0.1 each

Name of Director	Personal interests	Family interests	Corporate interests	Other interests	Total interests	Percentage of the Company's issued share capital
Mr. Kam Yuen (<i>Note</i>)	—	—	202,800,000	—	202,800,000	34.42%

Note: Mr. Kam Yuen is the sole beneficial owner of the issued share capital of Bio Garden Inc., a company incorporated in the British Virgin Islands ("BVI") which owned 202,800,000 shares in the Company at 31 March 2004.

(II) *Interests in underlying shares*

Certain directors and full-time employees of the Group have been granted options under the Company's share option scheme, details of which are set out in the section "Share Option Scheme" below.

Save as disclosed above, as at 31 March 2004, none of the directors or chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or were required, pursuant to the GEM Listing Rules, to be notified to the Company and the Exchange.

SHARE OPTION SCHEME

Pursuant to the share option scheme (the "Scheme") adopted by the Company on 30 July 2002, the Board may at its discretion grant options to executives and full-time employees (including directors of the Company) (collectively referred to as the "Participants") of the Group to take up options to subscribe for shares of the Company. The Scheme enables the Company to grant share options to Participants as incentives and rewards for their contribution to the Group.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 30% of the issued share capital of the Company from time to time. The total number of shares which may be issued upon the exercise of all options to be granted under the Scheme must not in aggregate exceed 10% of the shares in issue as at 30 July 2002, the date on which the Scheme was adopted. Pursuant to the Scheme, the total number of shares available for issue was 48,500,000 shares as at 18 June 2004, representing approximately 8.13% of the issued share capital of the Company as at such date.

The total number of shares issued and to be issued upon the exercise of options granted and to be granted to each Participant (including both exercised and outstanding options) in any 12-month period up to and including the date of offer must not exceed 1% of the shares in issue at the offer date.

The exercise price shall be determined by the Board, but shall not be less than the higher of the closing price of the shares of the Company on the offer date of the share option which must be a business day and the average closing price of the shares for the five business days immediately preceding the date of offer of the share option.

Share options granted shall be deemed to be accepted upon receipt of the acceptance of offer letter from the grantee on the date specified in the offer as the latest date for acceptance, together with a remittance in favour of the Company of HK\$1 by way of consideration for the grant.

An option may be exercised in accordance with the terms of the Scheme at any time during a period notified by the Board to each grantee but may not be exercised after the expiry of 10 years from the offer date.

The Scheme will continue to be in full force and effect until the close of business on the business day immediately preceding 30 July 2012 (save that the Company, by ordinary resolution in general meeting, may at any time terminate the operation of the Scheme).

On 31 March 2003, the Company granted 24,250,000 options to Participants (including two executive directors) to subscribe for shares in the Company under the Scheme at an exercise price of HK\$1.15 per share. Shares of the Company were at a closing price of HK\$1.09 immediately before the day on which options were offered. Details of options granted are summarised as follows:

Name of directors and employees	Exercisable period	Number of share options outstanding as at 1 April 2003	Number of share options exercised during the year	Number of share options cancelled during the year	Number of share options lapsed during the year	Number of share options outstanding as at 31 March 2004
Mr. Lu Tian Long	1 April 2003 to 16 March 2013	4,000,000	(1,200,000)	—	—	2,800,000
Ms. Zheng Ting	1 April 2003 to 16 March 2013	2,000,000	(600,000)	—	—	1,400,000
Full-time employees (other than directors)	1 April 2003 to 16 March 2013	18,250,000	(5,385,000)	—	—	12,865,000
		24,250,000	(7,185,000)	—	—	17,065,000

7,185,000 share options were exercised on 21 October 2003. Immediately before the date of exercise, the closing price per share was HK\$1.99.

The exercise of the above share options 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.

The directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the options based on various speculative assumptions would be meaningless and misleading. Therefore the directors believe that the costs for disclosing the value of options do not justify for the benefits provided.

REPORT OF THE DIRECTORS

Apart from the foregoing, at no time during the year was the Company or any of its holding company or subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, chief executives, their spouses or their children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

INTERESTS DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

At 31 March 2004, so far as is known to the directors or chief executive of the Company, the following persons (other than a director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity and nature of interest	No. of issued shares	Percentage of the Company's issued share capital
Bio Garden Inc. (Note)	Beneficial owner	202,800,000	34.42%

Note: Bio Garden Inc. is an investment holding company incorporated in the BVI. Mr. Kam Yuen is the sole beneficial owner of the issued share capital of this company.

Save as disclosed above, as at 31 March 2004, so far as is known to any director or chief executive of the Company, no other person had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer shares on a pro-rata basis to existing shareholders.

BANK LOAN

Particulars of bank loan of the Group as at 31 March 2004 are set out in note 24 on the financial statements.

RETIREMENT SCHEMES

Details of the Group's retirement schemes for the year ended 31 March 2004 are set out in note 29 on the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on pages 74 and 75 of this annual report.

COMPETITION AND CONFLICT OF INTERESTS

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interest with the Group.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

The Company has complied with the Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures during the year.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 15 December 2001 and has formulated its written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The Committee's primary duties are to review and to supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board.

The Committee comprises two independent non-executive directors, namely Mr. Gu Qiao and Mr. Gao Zong Ze.

The Committee met four times during the year, reviewing the Company's reports and financial statements, and providing advice and comments to the Board.

SPONSOR'S INTEREST

Pursuant to a sponsorship agreement entered into between ICEA Capital Limited (the "Sponsor") and the Company dated 18 December 2001, the Sponsor has received and will continue to receive fees for acting as the Company's sponsor and retained sponsor for the period till 31 March 2004. The Sponsor will also receive additional financial advisory and documentation fees for acting as the Company's financial adviser in relation to certain transactions. The sponsorship agreement expired on 31 March 2004.

To the best knowledge of the Sponsor, none of the Sponsor, its directors, employees and associates had any interests in the securities of the Company or any other member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any other member of the Group as at 31 March 2004.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

Kam Yuen

Chairman

Hong Kong, 18 June 2004

REPORT OF THE AUDITORS

AUDITORS' REPORT TO THE SHAREHOLDERS OF GOLDEN MEDITECH COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 37 to 73 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

Hong Kong, 18 June 2004

CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2004
(Expressed in Hong Kong dollars)

	Note	2004 \$'000	2003 \$'000
Turnover	3	174,595	133,580
Cost of sales		(55,234)	(36,500)
Gross profit		119,361	97,080
Other revenue	4	12,844	12,891
Selling expenses		(4,795)	(5,134)
Administrative expenses		(30,675)	(28,294)
Profit from operations		96,735	76,543
Finance cost	5(a)	(754)	—
Share of profit of an associate		14,811	—
Profit before taxation	5	110,792	76,543
Taxation	6	(3,341)	—
Profit after taxation		107,451	76,543
Minority interests		490	—
Profit attributable to shareholders	9	107,941	76,543
Final dividend proposed after the balance sheet date	10	21,469	14,550
Earnings per share	11		
Basic (in cents)		20.7	16.5
Diluted (in cents)		20.4	16.5

The notes on pages 43 to 73 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 March 2004

(Expressed in Hong Kong dollars)

	Note	2004		2003	
		\$'000	\$'000	\$'000	\$'000
Non-current assets					
Fixed assets	14		136,405		131,677
Construction in progress	15		159,466		7,176
Interest in an associate	17		53,237		39,535
Goodwill	18		70,869		698
			419,977		179,086
Current assets					
Inventories	19		79,178		4,599
Trade receivables	20		93,889		48,726
Other receivables, deposits and prepayments	21		53,331		47,121
Cash and bank balances	22		195,295		160,215
			421,693		260,661
Current liabilities					
Trade payables	23		43,828		29,236
Other payables and accruals			13,449		21,446
Bank loan (secured)	24		28,371		—
Current taxation	6(c)		2,232		—
			87,880		50,682
Net current assets			333,813		209,979
Total assets less current liabilities			753,790		389,065
Non-current liability					
Deferred income			2,001		—
Minority interests			44,297		—
NET ASSETS			707,492		389,065
CAPITAL AND RESERVES					
Share capital	25		58,919		48,500
Reserves	26(a)		648,573		340,565
			707,492		389,065

Approved and authorised for issue by the board of directors on 18 June 2004

KAM YUEN
Director

ZHENG TING
Director

The notes on pages 43 to 73 form part of these financial statements.

BALANCE SHEET

at 31 March 2004
(Expressed in Hong Kong dollars)

	Note	2004		2003	
		\$'000	\$'000	\$'000	\$'000
Non-current assets					
Fixed assets	14		34		8
Interest in subsidiaries	16		334,322		139,134
			334,356		139,142
Current assets					
Other receivables, deposits and prepayments	21	41,076		55,673	
Cash and bank balances	22	90,926		41,931	
		132,002		97,604	
Current liabilities					
Other payables and accruals		2,573		1,344	
			129,429		96,260
NET ASSETS					
			463,785		235,402
CAPITAL AND RESERVES					
Share capital	25	58,919		48,500	
Reserves	26(b)	404,866		186,902	
		463,785		235,402	

Approved and authorised for issue by the board of directors on 18 June 2004

KAM YUEN
Director

ZHENG TING
Director

The notes on pages 43 to 73 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2004

(Expressed in Hong Kong dollars)

	2004 \$'000	2003 \$'000
Total equity at 1 April	389,065	179,110
Exchange differences on translation of the financial statements of entities outside Hong Kong	732	220
Net profit for the year	107,941	76,543
Dividend paid during the year	(14,550)	—
Movements in share capital		
- Shares issued	10,419	7,000
- Share premium arising from issue of shares	213,885	126,192
	224,304	133,192
Total equity at 31 March	707,492	389,065

The notes on pages 43 to 73 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2004

(Expressed in Hong Kong dollars)

Note	2004 \$'000	2003 \$'000
Operating activities		
Profit before taxation	110,792	76,543
Adjustments for:		
- Depreciation	10,648	3,487
- Amortisation of goodwill	1,897	98
- Interest income	(986)	(1,210)
- Interest expense	754	—
- Share of profit of an associate	(14,811)	—
- Effect of foreign exchange rates	(34)	14
	108,260	78,932
(Increase)/decrease in inventories	(1,067)	63
Increase in trade receivables	(45,163)	(5,370)
Decrease/(increase) in other receivables, deposits and prepayments	8,100	(35,907)
Increase in trade payables	12,635	19,763
(Decrease)/increase in other payables and accruals	(7,997)	14,535
Increase in deferred income	2,001	—
	76,769	72,016
Cash generated from operations		
Tax paid	—	—
	76,769	72,016
Investing activities		
Payment for additions to construction in progress	(135,783)	(57,071)
Payment for purchase of fixed assets	(1,506)	(4,534)
Payment for purchase of an associate	—	(39,535)
Payment for purchase of a subsidiary	(46,626)	—
Net increase in short-term deposits maturing beyond three months	(134)	(38,222)
Interest received	986	1,210
	(183,063)	(138,152)

The notes on pages 43 to 73 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2004

(Expressed in Hong Kong dollars)

	Note	2004 \$'000	2003 \$'000
Financing activities			
Proceeds from shares issue under share option scheme		8,263	—
Net proceeds from the placing of new shares		148,001	133,192
Dividend paid		(14,550)	—
Interest paid		(754)	—
Net cash from financing activities		140,960	133,192
Net increase in cash and cash equivalents		34,666	67,056
Cash and cash equivalents at 1 April		121,993	54,869
Effect of foreign exchange rates changes		280	68
Cash and cash equivalents at 31 March	22	156,939	121,993

The notes on pages 43 to 73 form part of these financial statements.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 BACKGROUND

Golden Meditech Company Limited (the "Company") was incorporated in the Cayman Islands on 3 September 2001 as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands. The shares of the Company are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Exchange").

The Company and its subsidiaries are collectively referred to as the "Group".

2 SIGNIFICANT ACCOUNTING POLICIES

(a) *Statement of compliance*

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all Statements of Standard Accounting Practice ("SSAP") and Interpretations) issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements also comply with the disclosure requirements of the Listing Rules of the GEM of the Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

(b) *Basis of preparation of the financial statements*

The measurement basis used in the preparation of the financial statements is historical cost.

(c) *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 March of each year. All material intra-group transactions and balances are eliminated on consolidation.

(d) *Goodwill*

Goodwill, being the excess of the consideration over the fair values of the separate net assets in respect of business operations acquired, is recognised as an asset and amortised to the income statement on a straight-line basis over its estimated useful life. Goodwill is stated at cost less accumulated amortisation and impairment losses.

(e) *Investments in subsidiaries*

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Investments in subsidiaries (Continued)

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company.

(f) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement reflects the Group's share of the post acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 2(d) and impairment losses.

(g) Fixed assets and depreciation

(i) Valuation

Fixed assets are stated in the balance sheets at cost less accumulated depreciation and impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over their estimated useful lives as follows:

Leasehold land	Over the remaining term of the lease
Buildings	10 - 30 years
Leasehold improvements	Shorter of the estimated useful lives and unexpired term of the leases
Machineries	5 - 10 years
Motor vehicles	5 years
Furniture, fixtures and equipment	5 years

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Fixed assets and depreciation (Continued)

(iv) Disposals

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(h) Construction in progress

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as interest expense capitalised during the period of construction and installation. Capitalisation of these costs ceased and the construction in progress is transferred to fixed assets when substantially all of the activities necessary to prepare the assets for their intended use are complete.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets;
- construction in progress;
- goodwill;
- investments in subsidiaries and associate.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit).

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(j) Inventories

Inventories include preservation costs related to cord blood stem cells held by the Group. Preservation costs consist primarily of direct labour and materials including laboratory expenses, blood stem cells procurement fees, and indirect costs including allocations of costs from departments that support processing activities and facility allocations.

Inventories are stated at the lower of cost and net realisable value. Cost is determined by actual purchase price.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(I) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) *Income tax* (Continued)

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
 - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(m) *Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) *Dividends*

Dividends are recognised as a liability in the period in which they are declared.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and is after deduction of any returns and allowances.

(ii) Services income

Revenue is recognised upon the delivery of the service to the customers.

(iii) Government subsidies

Government subsidies are recognised as income in the accounting period in which it is earned.

(iv) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and at the rate applicable.

(p) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of companies outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserve.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Operating leases

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(r) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to defined contribution plan in the People's Republic of China ("PRC") and Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in the income statement as incurred.
- (iii) When the Group grants employees options to acquire shares of the Company, no employee benefit cost or obligation is recognised at that time. When the options are exercised, equity is increased by the amount of the proceeds received.

(s) Research and development costs

Research and development costs comprise costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. In the circumstances, research and development costs are recognised as expenses in the period in which they are incurred.

(t) Related parties

For the purposes of this report, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Segment reporting

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The primary format, business segment, is based on the Group's management and internal reporting structure.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

3 TURNOVER

The Company acts as an investment holding company and the Group is principally engaged in the manufacture and sale of 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 of blood stem cells extracted from the umbilical cords of newborn babies ("Cord Blood Bank").

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

Turnover recognised during the year may be analysed as follows:

	2004 \$'000	2003 \$'000
Sales of ABRS Machines and Portable ABRS Machines	144,154	120,415
Sales of Disposable Chambers	26,705	13,165
Relating to Cord Blood Bank services	3,736	—
	174,595	133,580

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

4 OTHER REVENUE

	2004 \$'000	2003 \$'000
Bank interest income	986	1,210
Government subsidies	11,858	11,681
	12,844	12,891

Pursuant to the relevant 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 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2004 \$'000	2003 \$'000
(a) Finance cost: Interest on bank loan repayable within five years	754	—
(b) Staff costs: Salaries, wages and other benefits	9,242	6,811
Contributions to defined contribution plans	425	176
	9,667	6,987
Average number of employees during the year	188	161
(c) Other items: Cost of inventories	55,234	36,500
Depreciation	10,648	3,487
Auditors' remuneration	1,200	900
Operating lease charges in respect of - properties	2,398	3,406
- other assets	265	145
Research and development costs	1,568	1,881
Amortisation of goodwill	1,897	98

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) *Taxation in the consolidated income statement represents:*

	2004 \$'000	2003 \$'000
Current tax - Outside Hong Kong		
PRC income tax for the year	2,232	—
Share of associate's taxation	1,109	—
	3,341	—

Taxation for the Group's PRC subsidiaries is charged at the appropriate current rates of taxation ruling in the PRC.

(b) *Reconciliation between tax expense and accounting profit at applicable tax rates:*

	2004		2003	
	\$'000	%	\$'000	%
Profit before tax	110,792		76,543	
Notional tax on profit before tax, calculated at the rates applicable to profits in the jurisdiction concerned	39,156	35.3	28,430	37.1
Reduced tax rate approved by tax authorities	(22,956)	(20.7)	(17,135)	(22.4)
Income tax exemption	(15,937)	(14.4)	(14,279)	(18.7)
Tax effect of unused tax losses not recognised	3,078	2.8	2,984	4.0
Actual tax expense	3,341	3.0	—	—

(i) *Hong Kong Profits Tax*

No provision for Hong Kong Profits Tax was made for the year ended 31 March 2004 (2003: \$Nil) as the Group did not have any profits assessable to Hong Kong Profits Tax during the year.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates: (Continued)

(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 fully exempted from PRC income tax until 31 December 2003. Thereafter, this subsidiary will be entitled to a 50% reduction of PRC income tax for the next three years 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 tax authority.

(c) Current taxation in the consolidated balance sheet represents:

Provision for taxation:

- Hong Kong
- Outside Hong Kong

The Group	
2004	2003
\$'000	\$'000
—	—
2,232	—
2,232	—

(d) Deferred tax assets not recognised

The group has not recognised deferred tax assets in respect of tax losses of \$39,914,000 (2003: \$22,096,000). Tax losses of the Group's PRC subsidiary totalling \$4,170,000 will expire during 2006 to 2008. Other tax losses do not expire under current tax legislation.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2004 \$'000	2003 \$'000
Fees	320	220
Salaries and other emoluments	1,867	1,819
Bonuses	1,576	762
Retirement benefits	57	57
	3,820	2,858

Included in the directors' remuneration were fees of \$320,000 (2003: \$220,000) paid to the independent non-executive directors during the year.

The executive directors received remuneration of approximately \$1,862,196, \$432,370, \$426,790, \$406,900 and \$372,000 for the year ended 31 March 2004 and approximately \$1,423,532, \$372,000, \$280,900, \$280,900 and \$280,900 for the year ended 31 March 2003.

The non-executive directors received remuneration of approximately \$Nil, \$260,000 and \$60,000 for the year ended 31 March 2004 (2003: \$Nil, \$110,000, \$110,000).

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. Each of the executive directors entered into a service contract with the Company for a fixed term of three years commencing on 28 December 2001, and will continue thereafter unless and until, terminated by either party by serving not less than 90 days' prior written notice. Each of the non-executive directors entered into a service contract with the Company for a fixed term of three years commencing on 28 December 2001 which can be terminated by either party by serving not less than 30 days' prior written notice.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2003: four) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other one (2003: one) individual is as follows:

	2004 \$'000	2003 \$'000
Salaries, allowances and other benefits	1,144	835
Retirement benefits	12	12
	1,156	847

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of \$18,629,000 (2003: \$27,944,000) which has been dealt with in the financial statements of the Company.

10 DIVIDEND

(a) Dividend in respect of the current financial year

	2004 \$'000	2003 \$'000
Final dividend proposed after the balance sheet date of 3.6 cents (2003: 3.0 cents) per share	21,469	14,550

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. The proposed final dividend for the year ended 31 March 2004 will be payable in cash with a scrip dividend alternative.

(b) Dividend attributable to the previous financial year, approved and paid during the year

	2004 \$'000	2003 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 3.0 cents (2003: \$Nil) per share	14,550	—

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of \$107,941,000 (2003: \$76,543,000) divided by the weighted average number of 520,721,230 (2003: 462,945,205) shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the consolidated profit attributable to shareholders of \$107,941,000 (2003: \$76,543,000) and the weighted average number of shares of 528,198,215 (2003: 462,964,741) shares after adjusting for the effect of all dilutive potential shares.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

11 EARNINGS PER SHARE (Continued)

(c) Reconciliations

	2004 Number of shares	2003 Number of shares
Weighted average number of shares used in calculating basic earnings per share	520,721,230	462,945,205
Deemed issue of shares for no consideration arising from share options	7,476,985	19,536
Weighted average number of shares used in calculating diluted earnings per share	528,198,215	462,964,741

12 CHANGE IN ACCOUNTING POLICY

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 April 2003, in order to comply with the revised SSAP 12 issued by the Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax as set out in note 2(l). The adoption of the revised SSAP 12 does not have any significant effect on the Group's profits and net assets for the current and prior years.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

13 SEGMENT REPORTING

Business segments

The Group comprises the following main business segments:

- (i) Medical Device segment: the development, manufacture and sale of medical devices including ABRS Machines, Portable ABRS Machines and Disposable Chambers.
- (ii) Cord Blood Bank segment: the provision of blood stem cell storage facilities and accessory services.

	Medical Device segment		Cord Blood Bank segment		Elimination		Consolidated	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Revenue from external customers	170,859	133,580	3,736	—	—	—	174,595	133,580
Segment result	96,984	76,543	(249)	—	—	—	96,735	76,543
Net financing costs							(754)	—
Share of profit of an associate							14,811	—
Income tax expense							(3,341)	—
Minority interests							490	—
Net profit for the year							107,941	76,543
Segment assets	618,000	399,514	240,136	—	(128,455)	—	729,681	399,514
Investment in an associate							41,120	39,535
Unallocated assets							70,869	698
Total assets							841,670	439,747
Segment liabilities	55,816	50,682	162,520	—	(128,455)	—	89,881	50,682
Unallocated liabilities							—	—
Total liabilities							89,881	50,682
Capital expenditure	1,935	61,605	135,354	—	—	—	137,289	61,605
Depreciation and amortisation for the year	11,523	3,585	1,022	—	—	—	12,545	3,585

The Group's turnover and operating profit are entirely derived from the PRC. Accordingly, no analysis by geographical segment is provided.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14 FIXED ASSETS

	The Group					
	Leasehold land and buildings	Leasehold improvements	Machineries	Motor vehicles	Furniture, fixtures and equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Cost:</i>						
At 1 April 2003	111,589	6,437	13,423	2,568	1,332	135,349
Exchange adjustments	390	23	47	9	5	474
Transfer from construction in progress	69	176	1,424	—	7	1,676
Through acquisition of a subsidiary	—	—	14,848	67	1,149	16,064
Additions	—	—	577	534	395	1,506
At 31 March 2004	112,048	6,636	30,319	3,178	2,888	155,069
<i>Aggregate depreciation:</i>						
At 1 April 2003	2,036	630	559	238	209	3,672
Exchange adjustments	7	2	2	1	1	13
Through acquisition of a subsidiary	—	—	3,740	67	524	4,331
Charge for the year	5,305	1,820	2,504	613	406	10,648
At 31 March 2004	7,348	2,452	6,805	919	1,140	18,664
<i>Net book value:</i>						
At 31 March 2004	104,700	4,184	23,514	2,259	1,748	136,405
At 31 March 2003	109,553	5,807	12,864	2,330	1,123	131,677

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

14 FIXED ASSETS (Continued)

	The Company Equipment \$'000
<i>Cost:</i>	
At 1 April 2003	10
Additions	32
	<hr/>
At 31 March 2004	42
	<hr style="border-top: 1px dashed black;"/>
<i>Aggregate depreciation:</i>	
At 1 April 2003	2
Charge for the year	6
	<hr/>
At 31 March 2004	8
	<hr style="border-top: 1px dashed black;"/>
<i>Net book value:</i>	
At 31 March 2004	34
	<hr/>
At 31 March 2003	8
	<hr/>

The analysis of net book value of properties is as follows:

	The Group	
	2004 \$'000	2003 \$'000
Outside Hong Kong		
- under medium-term lease	104,700	109,553
	<hr/>	<hr/>

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

15 CONSTRUCTION IN PROGRESS

	The Group	
	2004 \$'000	2003 \$'000
At 1 April	7,176	79,729
Exchange adjustments	25	136
Through acquisition of a subsidiary	18,158	—
Additions	135,783	57,071
Transfer to fixed assets	(1,676)	(129,760)
At 31 March	159,466	7,176

Construction in progress as at 31 March 2004 represents renovation work in progress, machinery under installation and construction of storage facilities for blood stem cells.

16 INTEREST IN SUBSIDIARIES

	The Company	
	2004 \$'000	2003 \$'000
Unlisted shares, at cost	1	1
Amounts due from subsidiaries	334,321	139,133
	334,322	139,134

Amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

16 INTEREST IN SUBSIDIARIES (Continued)

The following list contains the particulars of subsidiaries which affect the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment and operations	Percentage of equity			Issued/ registered capital	Principal activities
		Group's effective holding	held by the Company	held by subsidiary		
China Bright Group Co. Limited	Hong Kong	100%	100%	—	\$13,158	Investment holding
Golden Meditech (BVI) Company Limited	British Virgin Islands/ Hong Kong	100%	100%	—	US\$1	Investment holding
Golden Meditech Medical Devices Distribution (BVI) Company Limited	British Virgin Islands/ Hong Kong	100%	100%	—	US\$1	Investment holding
Golden Meditech Stem Cells (BVI) Company Limited	British Virgin Islands/ Hong Kong	100%	100%	—	US\$1	Investment holding
Beijing Jingjing Medical Equipment Co., Ltd. ("BJ Limited") #	PRC	100%	—	100%	US\$10,100,000	Manufacture and sale of medical devices
Beijing Jia Chen Hong Biological Technologies Company Limited ("Jia Chen Hong") #	PRC	51%	—	51%	RMB100,000,000	Provision of blood stem cell storage facilities and accessory services

Registered under the laws of the PRC as foreign investment enterprise.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

17 INTEREST IN AN ASSOCIATE

	The Group	
	2004 \$'000	2003 \$'000
Share of net assets	34,259	31,912
Goodwill	6,861	7,623
Due from an associate	12,117	—
	53,237	39,535

Name of company	Place of establishment and operation	Percentage of equity held by subsidiary	Issued/registered capital	Principal activities
Beijing Yuande Bio-Medical & Engineering Co., Ltd. ("Beijing Yuande")	PRC	25%	RMB67,100,000	Manufacture and sale of high intensity focused ultrasonic devices for treatment of tumours

18 GOODWILL

	The Group	
	2004 \$'000	2003 \$'000
<i>Cost:</i>		
At 1 April	966	966
Addition through acquisition of a subsidiary	72,068	—
At 31 March	73,034	966
<i>Accumulated amortisation:</i>		
At 1 April	268	170
Amortisation for the year	1,897	98
At 31 March	2,165	268
<i>Carrying amount:</i>		
At 31 March	70,869	698

Goodwill is amortised on a straight-line basis over 10 to 20 years.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

19 INVENTORIES

	The Group	
	2004 \$'000	2003 \$'000
Raw materials	1,108	1,295
Work in progress	991	1,211
Finished goods	77,079	2,093
	79,178	4,599

Included in finished goods is an amount of preservation costs related to cord blood stem cells of \$73,043,000 (2003: \$Nil).

All of the inventories are stated at cost.

20 TRADE RECEIVABLES

Customers are generally granted with credit terms of 2 to 6 months. Details of the ageing analysis of trade receivables are as follows:

	The Group	
	2004 \$'000	2003 \$'000
Within 6 months	70,142	47,211
Between 7 and 12 months	16,656	1,166
Over one year	7,091	349
	93,889	48,726

All of the trade receivables are expected to be recovered within one year. The management will closely monitor any overdue balances and take necessary action.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

21 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Included in other receivables, deposits and prepayments at 31 March 2004 are earnest monies totalling \$40,000,000 in connection with the proposed investments in PRC entities with operations in the medical equipment distribution and pharmaceutical industries. The amount would be refundable to the Company should agreement of commercial terms not be reached. The proposed investments were still in the process of negotiation at 31 March 2004.

Included in other receivables, deposits and prepayments at 31 March 2003 are earnest monies totalling \$40,000,000 in connection with a proposed investment in PRC entities with operations in the medical industry. The investment has been concluded during the year ended 31 March 2004.

All of the other receivables, deposits and prepayments are expected to be recovered within one year.

22 CASH AND BANK BALANCES

	The Group		The Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Deposits with banks	88,527	79,940	50,058	41,416
Cash at bank and in hand	106,768	80,275	40,868	515
	195,295	160,215	90,926	41,931
Short term deposits maturing beyond three months	(38,356)	(38,222)		
Cash and cash equivalents in the cash flow statement	156,939	121,993		

23 TRADE PAYABLES

The Group is normally granted with credit terms of 1 to 3 months from its suppliers. Details of the ageing analysis of trade payables are as follows:

	The Group	
	2004 \$'000	2003 \$'000
Due within 3 months or on demand	43,828	29,236

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

24 BANK LOAN (SECURED)

	The Group	
	2004 \$'000	2003 \$'000
Bank loan	28,371	—

The bank loan bears interest rate at 5.31% per annum and is repayable on 21 May 2004, which is secured on a building owned by a minority shareholder of a subsidiary. The bank loan is subsequently refinanced to be repayable on 21 May 2005.

25 SHARE CAPITAL

	2004		2003	
	No. of shares (‘000)	\$'000	No. of shares (‘000)	\$'000
<i>Authorised:</i>				
Ordinary shares of \$0.1 each	1,000,000	100,000	1,000,000	100,000
<i>Issued and fully paid:</i>				
At 1 April	485,000	48,500	415,000	41,500
Shares issued under share option scheme	7,185	719	—	—
Issuance of shares for the acquisition of subsidiary (Note 27)	40,000	4,000	—	—
Issuance of shares for cash (Notes)	57,000	5,700	70,000	7,000
At 31 March	589,185	58,919	485,000	48,500

Notes: (i) The Company allotted and issued 57,000,000 shares of \$0.1 each at a price of \$2.7 per share in January 2004.

(ii) The Company allotted and issued 70,000,000 shares of \$0.1 each at a price of \$2.0 per share in July 2002.

25 SHARE CAPITAL (Continued)

Pursuant to the Scheme adopted on 30 July 2002, the directors may grant options to executives and full-time employees (including directors of the Company) (collectively referred to the "Participants") of the Group to take up options to subscribe for shares of the Company. The Scheme enables the Company to grant share options to Participants as incentives and rewards for their contribution to the Group.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 30% of the issued share capital of the Company from time to time. The total number of shares which may be issued upon the exercise of all options to be granted under the Scheme must not in aggregate exceed 10% of the shares in issue as at 30 July 2002, the date on which the Scheme was adopted. According to the Scheme, the total number of shares available for issue as at 18 June 2004 was 48,500,000 shares, representing approximately 8.13% of the issued share capital of the Company as at such date.

The total number of shares issued and to be issued upon the exercise of options granted and to be granted to each Participant (including both exercised and outstanding options) in any 12-month period up to and including the date of offer must not exceed 1% of the shares in issue at the offer date.

The exercise price shall be at a price determined by the directors and shall not be less than the higher of the closing price of the share on the offer date of the share option and the average closing price of the shares for the five business days immediately preceding the date of offer date of share option.

Share options granted shall be deemed to be accepted upon receipt of the acceptance of offer letter from the grantee within 30 days from the offer date, together with a remittance in favour of the Company of \$1 by way of consideration for the grant.

An option may be exercised in accordance with the terms of the Scheme at any time during a period notified by the board to each grantee but may not be exercised after the expiry of 10 years from the offer date.

The exercise of the above share options is subject to the following limit:

- (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.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

25 SHARE CAPITAL (Continued)

(i) Movements in share options

	2004 Number	2003 Number
At 1 April	24,250,000	—
Issued	—	24,250,000
Exercised	(7,185,000)	—
At 31 March	17,065,000	24,250,000

(ii) Terms of unexpired and unexercised share options at balance sheet date

Date granted	Exercisable period	Exercise price	2004 Number	2003 Number
31 March 2003	1 April 2003 to 16 March 2013	\$1.15	17,065,000	24,250,000

(iii) Share options granted

Exercisable period	Exercise price	2004 Number	2003 Number
1 April 2003 to 16 March 2013	\$1.15	—	24,250,000

The consideration payable by each employee for the entire amount of options granted (i.e. not per share) is \$1.

(iv) Share options exercised

Exercise date	Exercise price	Closing price per share immediately before the date of exercise	Number	Proceeds received
21 October 2003	\$1.15	\$1.99	7,185,000	\$8,262,750

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

26 RESERVES

(a) The Group

	Share premium \$'000	Merger reserve \$'000	Exchange reserve \$'000	Surplus reserve \$'000	Retained profits \$'000	Total \$'000
At 1 April 2003	162,521	54,193	21	7,307	116,523	340,565
Shares issued under share option scheme (note 25)	7,544	—	—	—	—	7,544
Premium arising from the placing of shares	212,240	—	—	—	—	212,240
Share issuance expenses	(5,899)	—	—	—	—	(5,899)
Profit for the year	—	—	—	—	107,941	107,941
Exchange differences on translation of financial statements of companies outside Hong Kong	—	—	706	26	—	732
Dividend	—	—	—	—	(14,550)	(14,550)
Transfer to surplus reserve	—	—	—	9,989	(9,989)	—
At 31 March 2004	376,406	54,193	727	17,322	199,925	648,573
At 1 April 2002	36,329	54,193	(199)	—	47,287	137,610
Premium arising from the placing of shares	133,000	—	—	—	—	133,000
Share issuance expenses	(6,808)	—	—	—	—	(6,808)
Profit for the year	—	—	—	—	76,543	76,543
Exchange differences on translation of financial statements of companies outside Hong Kong	—	—	220	—	—	220
Transfer to surplus reserve	—	—	—	7,307	(7,307)	—
At 31 March 2003	162,521	54,193	21	7,307	116,523	340,565

Profits are retained as follows:

By the Company and its subsidiaries
By an associate

2004 \$'000	2003 \$'000
185,461	116,523
14,464	—
199,925	116,523

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

26 RESERVES (Continued)

(b) The Company

	Share premium \$'000	Retained profits/ (accumulated loss) \$'000	Total \$'000
At 1 April 2003	162,521	24,381	186,902
Shares issued under share option scheme (note 25)	7,544	—	7,544
Premium arising from the placing of shares	212,240	—	212,240
Share issuance expenses	(5,899)	—	(5,899)
Dividend paid during the year	—	(14,550)	(14,550)
Profit for the year	—	18,629	18,629
At 31 March 2004	376,406	28,460	404,866
At 1 April 2002	36,329	(3,563)	32,766
Premium arising from the placing of shares	133,000	—	133,000
Share issuance expenses	(6,808)	—	(6,808)
Profit for the year	—	27,944	27,944
At 31 March 2003	162,521	24,381	186,902

Under the Companies Law (2001 Second Revision) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

According to the relevant rules and regulations in the PRC, BJ Limited and Jia Chen Hong are required to appropriate 10% of after-tax profit (after offsetting prior year losses), based on the PRC statutory financial statements prepared in accordance with the relevant accounting principles and financial regulations applicable to foreign investment enterprises in the PRC, to a surplus reserve until the balance of the reserve reaches 50% of their respective registered capital. Thereafter, any further appropriations can be made at the directors' discretion. The surplus reserve can be utilised to offset prior year losses, or be utilised for issuance of bonus shares on condition that the surplus reserve shall be maintained at a minimum of 25% of the registered capital after such issuance.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

27 ACQUISITION OF A SUBSIDIARY

On 15 September 2003, the Group acquired a 51% equity interest in Jia Chen Hong for a consideration of \$118,682,000 satisfied by the issuance of 40,000,000 ordinary shares of \$0.1 each at \$1.701 per share and cash consideration of \$50,642,000.

	2004 \$'000
<i>Net assets acquired</i>	
Fixed assets	11,733
Construction in progress	18,158
Inventories	73,512
Debtors, deposits and prepayments	14,310
Cash at bank and in hand	4,016
Creditors and accrued charges	(1,957)
Short term bank loan	(28,371)
Net identifiable assets and liabilities	91,401
Minority interests	(44,787)
	46,614
Goodwill arising on consolidation	72,068
Total purchase price paid	118,682
Less: satisfied by the issuance of shares	(68,040)
cash of the subsidiary acquired	(4,016)
Net cash outflow in respect of the purchase of a subsidiary	46,626

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

28 COMMITMENTS

(a) Capital commitments

Capital commitments in respect of the renovation of premises and construction of storage facilities for blood stem cells outstanding at 31 March 2004 not provided for in the financial statements were as follows:

	The Group	
	2004 \$'000	2003 \$'000
Contracted for	53,568	613

(b) Operating lease commitments

At 31 March 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Within 1 year	2,036	1,805	1,313	1,183
After 1 year but within 5 years	12	1,654	12	1,283
	2,048	3,459	1,325	2,466

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

29 RETIREMENT BENEFITS SCHEMES

Hong Kong

Since 1 December 2000, the Company and Hong Kong subsidiary is required to join the Mandatory Provident Fund (the "MPF"), managed by an independent approved MPF trustee, under the requirements of the Hong Kong Mandatory Provident Fund Schemes Ordinance.

A Mandatory Provident Fund Scheme (the "MPF Scheme") has been set up by the Group for this purpose and employer's contributions are made under the MPF Scheme. Contributions are made based on 5% of each employee's salary subject to a cap of monthly salary of \$20,000 and are charged to the income statement as they became payable in accordance with the rules of the MPF Scheme.

29 RETIREMENT BENEFITS SCHEMES (Continued)

PRC, other than Hong Kong

Pursuant to the relevant PRC regulations, the Company's PRC subsidiaries, are required to make contributions at approximately 19% of the employees' salaries and wages to a defined contribution retirement scheme organised by the Beijing Social Security Bureau in respect of the retirement benefits for the Group's employees in the PRC.

Save as disclosed above, the Group has no other obligation to make payments in respect of retirement benefits of the employees.

30 RELATED PARTY TRANSACTIONS

Related party transactions disclosed in accordance with SSAP 2.120 "Related party disclosures" and Chapter 20 of the GEM Listing Rules are as follows:

- (i) A minority shareholder of a subsidiary of the Group has provided a security for a bank loan of the subsidiary during the year ended 31 March 2004 as mentioned in note 24.
- (ii) In August 2001, Jia Chen Hong, which became a subsidiary of the Group during the year, advanced \$2,818,000 to a related party of two of its directors for the purchase of a medical device from Beijing Yuande. The amount has been settled subsequent to the balance sheet date.

31 POST BALANCE SHEET EVENTS

- (i) On 20 May 2004, the Company set up a wholly-owned subsidiary, Golden Meditech Herbal Treatment (BVI) Company Limited ("GM Herbal"), which was incorporated in the British Virgin Islands. On 9 June 2004, GM Herbal entered into an agreement to acquire a 51% equity interest in Qi Jie Yuan Medicine Holding (HK) Limited ("QJY BVI") from Qi Jie Yuan Holdings Limited for an aggregate consideration of \$452,800,000. The consideration is to be satisfied (i) by cash of \$226,400,000; and (ii) by the issue of convertible bonds in the principal amount of \$226,400,000. These convertible bonds bear interest at the rate of 1% per annum and will mature in three years subsequent to their date of issue. The outstanding principal amounts of these bonds may be converted into ordinary shares of the Company at an initial conversion price of \$3.80 per share, subject to adjustment, at any time and from time to time after three months subsequent to their date of issue. Included in the earnest monies totalling \$40,000,000 as mentioned in note 21 are prepayments of \$30,000,000 which would be used to settle part of the cash consideration of such acquisition.

The sole asset of QJY BVI is its interest in the entire registered share capital of Beijing Qi Jie Yuan Medicine Technology Development Limited ("Qi Jie Yuan"). Qi Jie Yuan is a wholly foreign-owned enterprise in the PRC with a registered capital of RMB20,000,000. The principal activity of Qi Jie Yuan is the manufacture and sale of Chinese herbal medicine to enhance the immune system of HIV carriers and AIDS patients and defer the progression of such illness.

- (ii) On 29 April 2004, 7,185,000 ordinary shares were issued by the Company pursuant to the exercise of options granted under the share option scheme adopted on 30 July 2002.
- (iii) After the balance sheet date, the directors proposed a final dividend. Further details are disclosed in note 10.

FINANCIAL SUMMARY

A summary of the published financial information of the Group is set out below:

RESULTS

	Period From 17 November 1999 to 31 March 2000 HK\$'000	Year ended 31 March 2001 HK\$'000	Year ended 31 March 2002 HK\$'000	Year ended 31 March 2003 HK\$'000	Year ended 31 March 2004 HK\$'000
Turnover	—	16,983	78,597	133,580	174,595
Profit/(loss) from operations	(147)	6,004	41,876	76,543	96,735
Finance cost	—	(163)	(283)	—	(754)
Share of profit from associate	—	—	—	—	14,811
Profit/(loss) before taxation	(147)	5,841	41,593	76,543	110,792
Taxation	—	—	—	—	(3,341)
Profit/(loss) after taxation	(147)	5,841	41,593	76,543	107,451
Minority Interests	—	—	—	—	490
Profit/(loss) attributable to shareholders	(147)	5,841	41,593	76,543	107,941

ASSETS AND LIABILITIES

	As at 31 March				2004 HK\$'000
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	
Fixed assets	—	280	868	131,677	136,405
Construction in progress	—	4,364	79,729	7,176	159,466
Interest in associate	—	—	—	39,535	53,237
Goodwill	—	894	796	698	70,869
	—	5,538	81,393	179,086	419,977
Current assets	—	52,381	114,101	260,661	421,693
Total assets	—	57,919	195,494	439,747	841,670
Current liabilities	(137)	(52,215)	(16,384)	(50,682)	(87,880)
Total assets less current liabilities	(137)	5,704	179,110	389,065	753,790
Non-current liability	—	—	—	—	(2,001)
Minority interests	—	—	—	—	(44,297)
Net assets/(liabilities)	(137)	5,704	179,110	389,065	707,492

The Company was incorporated in the Cayman Islands on 3 September 2001 as an exempted company with limited liabilities under the Companies Law (2001 Second Revision) of the Cayman Islands. The Company became the holding company of the Group on 18 December 2001 through a reorganisation (the "Reorganisation"). The Group has been treated as a continuing entity and accordingly, the consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for the above periods presented, rather than from 18 December 2001.

The consolidated results of the Group for the period from 17 November 1999 to 31 March 2000 and for the years ended 31 March 2001 and 2002 include the results of the Company and its subsidiaries with effect from 17 November 1999 or since their respective dates of incorporation, whichever period is shorter. The Group's assets and liabilities at 31 March 2000 and 2001 is a combination of the assets and liabilities of the companies comprising the Group at 31 March 2000 and 2001.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of Golden Meditech Company Limited (the "Company") for the year 2004 will be held at Pheasant Room, 1/F, Mandarin Oriental Hong Kong, 5 Connaught Road, Central, Hong Kong on Thursday, 23 September 2004 at 3:00 p.m. for the following purposes:

1. to consider and adopt the audited consolidated financial statements of the Company and its subsidiaries and the reports of the directors (the "Directors") of the Company and of the auditors for the year ended 31 March 2004;
2. to declare a final dividend for the year ended 31 March 2004;
3. to elect Director;
4. to authorise the Directors to fix the Directors' remuneration;
5. to re-appoint the retiring auditors, KPMG, and to authorise the Directors to fix their remuneration;
6. as special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"THAT the authorised share capital of the Company be and is hereby increased from HK\$100,000,000 divided into 1,000,000,000 shares of HK\$0.1 each (the "Shares") to HK\$200,000,000 by the creation of 1,000,000,000 new Shares."

7. as special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"THAT subject to and conditional upon (i) the Growth Enterprise Market ("GEM") Listing Committee of The Stock Exchange of Hong Kong Limited (the "Exchange") granting or agreeing to grant listing of, and permission to deal in, the Bonus Shares (as hereinafter defined) and (ii) the passing of the ordinary resolution set out in item 6 of the notice convening this meeting:

- (a) upon the recommendation of the Directors, a sum of HK\$59,637,000 being part of the amount standing to the credit of the share premium account of the Company, or such larger sum as may be necessary to give effect to the bonus issue of Shares pursuant to this Resolution, be capitalized and accordingly the Directors be and are hereby authorised and directed to apply such sum in paying up in full at par not less than 596,370,000 unissued Shares (the "Bonus Shares"), and that such Bonus Shares shall be allotted and distributed, credited as fully paid up, to and amongst those shareholders whose names appear on the register of members of the Company as at the close of business on Thursday, 23 September 2004 (the "Record Date") on the basis of ten Bonus Shares for every ten existing issued Shares held by them respectively on the Record Date;
- (b) the Bonus Shares to be issued pursuant to this Resolution shall, subject to the memorandum and articles of association of the Company, rank *pari passu* in all respects with the Shares in issue as at the close of business on the Record Date, except that they will not rank for the final dividend for the year ended 31 March 2004; and
- (c) the Directors be authorised to do all such acts and things as may be necessary and expedient in connection with the allotment and issue of the Bonus Shares including, but not limited to, determining the amount to be capitalised out of the share premium account and the number of Bonus Shares to be allotted and distributed in the manner referred to in paragraph (a) of this Resolution."

8. as special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT:

- (a) subject to paragraph (c) of this Resolution, the board of Directors (the “Board”) be and is hereby granted an unconditional general mandate to exercise during the Relevant Period (as defined in paragraph (d) of this Resolution) all the powers of the Company to allot, issue and deal with additional Shares or securities convertible or exchangeable into Shares, and to make or grant offers, agreements, options, warrants or similar rights in respect thereof;
- (b) the mandate referred to in paragraph (a) shall authorise the Board during the Relevant Period to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted or issued or dealt with (whether pursuant to options or otherwise) by the Board pursuant to the mandate referred to in paragraph (a) above, otherwise than pursuant to:
 - (i) a Rights Issue;
 - (ii) the exercise of the subscription rights under options granted under any option scheme or similar arrangement for the time being adopted by the Company for the grant or issue to officers and/or employees and/or consultants and/or advisors of the Company and/or any of its subsidiaries of Shares or rights to subscribe for Shares;
 - (iii) any scrip dividend or similar arrangement providing for the allotment and issue of Shares or other securities of the Company in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association of the Company; or
 - (iv) any issue of Shares pursuant to the exercise of rights of subscription or conversion under the terms of any existing warrants, bonds, debentures, notes and other securities of the Company which carry rights to subscribe for or are convertible into Shares

shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval in paragraph (a) shall be limited accordingly;

- (d) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution up to:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles of Association of the Company to be held; or

NOTICE OF ANNUAL GENERAL MEETING

- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest;

“Rights Issue” means an offer of Shares, or an offer of warrants, options or other securities of the Company giving rights to subscribe for Shares, open for a period fixed by the Board to holders of Shares on the register of members on a fixed record date in proportion to their then holdings of such Shares as at that date (subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

- 9. as special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT:

- (a) subject to paragraph (b) of this Resolution, the exercise by the Board of all the powers of the Company during the Relevant Period (as defined in paragraph (c) of this Resolution) to repurchase Shares be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of Shares which may be repurchased by the Company on the GEM of the Exchange, or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Exchange under the Hong Kong Code on Share Repurchases pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution up to:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles of Association of the Company to be held; or
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest.”

NOTICE OF ANNUAL GENERAL MEETING

10. as special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT conditional upon the passing of Resolutions Nos. 8 and 9 set out in this notice, of which this Resolution forms part, the aggregate nominal amount of share capital of the Company that may be allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with by the Board pursuant to and in accordance with the mandate granted under Resolution No. 8 be and is hereby increased and extended by the addition thereto of the aggregate nominal amount of Shares repurchased by the Company pursuant to and in accordance with the mandate granted under Resolution No. 9, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution”; and

11. as special business, to amend the Articles of Association of the Company adopted on 15 December 2001 by passing the following resolution as a special resolution:

“THAT the Articles of Association of the Company be and are hereby amended in the following manner:

- (1) by deleting the definition of “Associates” as set out in Article 1(b) and replacing it with the following:

““Associates” has the meaning ascribed to it in the applicable rules of the stock exchange in the Relevant Territory;”

- (2) by deleting the words “section 2 of the Securities and Futures (Clearing Houses) Ordinance (Cap. 420 of the Laws of Hong Kong)” from the definition of “Clearing House” in Article 1(b) and replacing them with “Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) and any amendments thereto for the time in force”;

- (3) by deleting the definition of “Holding Company” as set out in Article 1(b) and replacing it with the following:

““Holding Company” has the meaning ascribed to it in the applicable rules of the stock exchange in the Relevant Territory;”

- (4) by deleting the definition of “Subsidiary” as set out in Article 1(b) and replacing it with the following:

““Subsidiary” has the meaning ascribed to it in the applicable rules of the stock exchange in the Relevant Territory;”

- (5) by deleting the words “by advertisement in the Newspapers” from Article 47 and replacing them with “in accordance with the requirement of the rules of the stock exchange in the Relevant Territory”;

- (6) by inserting in Article 72 the words “a poll is required under the applicable rules of the stock exchange in the Relevant Territory or ” in the second line immediately after the word “unless”;

- (7) by deleting the words “Unless a poll be so demanded and not withdrawn” in the first line of Article 73 and replacing them with “Unless a poll is so required under the applicable rules of the stock exchange in the Relevant Territory or duly demanded and, in the latter case, the demand is not withdrawn”;

NOTICE OF ANNUAL GENERAL MEETING

- (8) by re-numbering the existing Article 79 as Article 79(1) and adding the following new Article 79(2) immediately thereafter:

“(2) Where the Company has any knowledge that any Shareholder is, under the applicable rules of the stock exchange in the Relevant Territory, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such Shareholder in contravention of such requirement or restriction shall not be counted.”

- (9) by deleting paragraphs (f), (g), (h) and (i) of Article 107 in their entirety and replacing them with the following new paragraphs:

“(f) No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatever, nor shall any contract with regard thereto or any other contract or arrangement in which any Director or his Associate(s) is/are in any way interested be liable to be avoided nor shall any Director so contracting or being so interested or whose Associate(s) so contracting or being so interested be liable to account to the Company or the Shareholders for any remuneration, profit or other benefits realised by any such contract or arrangement, by reason only of such Director holding that office or the fiduciary relationship thereby established provided that such Director shall disclose the nature of interest in any contract or arrangement in which he or his Associate(s) is/are interested in accordance with the next paragraph of this Article.”

“(g) A Director who has knowledge that he or his Associate(s) is/are in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his/their interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first considered, if he knows his/their interest then exists, or in any other case at the first meeting of the Directors after he knows that he/they is/are or has/have become so interested. For the purposes of this Article, a general notice to the Directors by a Director to the effect that (i) he or his Associate(s) is/are a shareholder or officer of a specified company or firm and is/are to be regarded as interested in any contract or arrangement which may after the date of the notice be made with that company or firm or (ii) he or his Associate(s) is/are to be regarded as interested in any contract or arrangement which may after the date of the notice be made with a specified person who is connected with him or his Associate(s), shall be deemed to be a sufficient declaration of interest under this Article in relation to any such contract or arrangement; provided that no such notice shall be effective unless either it is given at a meeting of the Directors or the Director takes reasonable steps to secure that it is brought up and read at the next meeting of the Directors after it is given.”

“(h) A Director shall not vote (nor be counted in the quorum) on any resolution of the Directors approving any contract or arrangement or proposal in which he or his Associate(s) is/are to be the best of his knowledge materially interested, and if he shall do so his vote shall not be counted (nor is he counted in the quorum for that resolution), but this prohibition shall not apply to any of the following matters namely:

- (i) any contract or arrangement for the giving by the Company of any security or indemnity to the Director or his Associate(s) in respect of money lent or obligation undertaken by him or any of his Associate(s) at the request of or for the benefit of the Company or any of its subsidiaries;

NOTICE OF ANNUAL GENERAL MEETING

- (ii) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his Associate(s) has/have himself/themselves guaranteed or secured in whole or in part and whether alone or jointly;
 - (iii) any contract or arrangement concerning an offer of the Shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his Associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
 - (iv) any contract or arrangement in which the Director or his Associate(s) is/are interested as other holders of Shares or debentures or other securities of the Company by virtue only of his/their interest in Shares or debentures or other securities of the Company;
 - (v) any contract or arrangement concerning any other company in which the Director or his Associate(s) is/are interested only, directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his Associate(s) is/are beneficially interested in 5 percent or more of the issued shares of any class of the voting equity share capital of such company or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his Associates is derived);
 - (vi) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of a pension and or retirement, death or disability benefit scheme which relates both to Directors, their Associates and employees of the Company or of any of its subsidiaries and does not give the Director or his Associate(s) any privilege not accorded to the class of persons to whom such scheme or fund relates; and
 - (vii) any proposal concerning the adoption, modification or operation of any employees share scheme involving the issue or grant of options over Shares or other securities by the Company to, or for the benefit of the employees of the Company or its subsidiaries under which the Director or his Associate(s) may benefit.”
- “(i) A company shall be deemed to be a company in which a Director together with any of his Associates owns 5 percent or more of any class of the voting equity share capital of such company or of the voting rights of any class of shares of such company if and so long as (but only if and so long as) he together with his Associate(s) is/are (either directly or indirectly) the holders of or beneficially interested in 5 percent or more of any class of the issued voting equity share capital of such company (or of any third company, other than the Company or any of its subsidiaries, through which his/their interest is derived) or of the voting rights of any class of shares of the company. For the purpose of this Article there shall be disregarded any shares held by a Director or his Associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his Associate(s) is in reversion or remainder if and so long as some other person is entitled to receive the income thereof, any shares comprised in an authorised unit trust scheme in which the Director or his Associate(s) is/are interested only as a unit holder, and shares which carry no voting right at general meetings.”

NOTICE OF ANNUAL GENERAL MEETING

- (10) by replacing the words "Share", "Shares" and "Shareholders" where they appear in paragraph (j) of Article 107 with "share", "shares" and "shareholders" respectively; by replacing the word "Company" in the seventh line with "company" and by inserting "and/or his Associate(s)" immediately after the word "Director" in the eighth line of the same Article;
- (11) by inserting the words "(other than the Chairman) or his Associate(s)", "(other than such Chairman)" and "and/or his Associate(s)" respectively immediately after the word "Director" in the second, third and eighth line respectively of paragraph (k) of Article 107; by inserting the words "and/or his Associate(s)" immediately after the word "Chairman" in the tenth and fourteenth line of the same Article;
- (12) by replacing the words "he is" with "he or his Associate(s) is/are" in the fifth line of paragraph (l) of Article 107 and inserting "/their" immediately after the word "his" in the tenth line of the same Article; and
- (13) by deleting the words "The latest date for lodgement of such notices will be not more" from Article 113 and replacing them with the following:

"The period for lodgement of such notices will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later".

By Order of the Board

Kong Kam Yu

Company Secretary

Hong Kong, 18 June 2004

Notes:

1. The register of members of the Company will be closed from Friday, 17 September 2004 to Thursday, 23 September 2004, both days inclusive, during which period no transfer of Shares can be registered. In order to qualify for attending the annual general meeting convened by the above notice and for the proposed final dividend and Bonus Shares, all transfer forms must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Thursday, 16 September 2004.
2. A member entitled to attend and vote at the annual general meeting convened by the above notice is entitled to appoint one or, if he holds two or more Shares, more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.
3. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the annual general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person.
4. If two or more persons are joint holders of a Share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the other joint holder(s). For this purpose, seniority shall be determined by the order in which the names stand in the principal or branch register of members of the Company in respect of the joint holding.
5. A circular setting out further information regarding the resolutions to be proposed at the annual general meeting will be despatched to members of the Company together with the 2003/2004 Annual Report.
6. The translation into Chinese language of this notice (including the special resolution which contains the proposed amendments to the Company's Articles of Association) is for reference only. In case of any inconsistency, the English version shall prevail.