



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

(incorporated in the Cayman Islands with limited liability)



Interim Report 2002/2003

Your life's blood is our life's work  
精益求精、至愛至誠



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## **HIGHLIGHTS**

- For the six months ended 30 September 2002, the turnover of the Group reached approximately HK\$53,938,000, representing a significant increase of approximately 51% as compared with the corresponding period in 2001.
- Profit attributable to shareholders for the six months ended 30 September 2002 was approximately HK\$27,464,000, representing a significant increase of approximately 36% over the corresponding period in 2001.
- The Group sold 446 sets of Machines and 9,144 units of Disposable Chambers for the six months ended 30 September 2002.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2002.

## HALF-YEARLY RESULTS (UNAUDITED)

The board of Directors (the "Board") of the Company are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 September 2002 as follows:

### CONSOLIDATED INCOME STATEMENT

	Note	Unaudited For the three months ended 30 September		Unaudited For the six months ended 30 September	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	30,708	23,430	53,938	35,822
Cost of sales		(8,768)	(6,153)	(15,261)	(9,840)
Gross profit		21,940	17,277	38,677	25,982
Other revenue	3	409	25	458	237
Selling expenses		(1,012)	(2,572)	(2,521)	(3,957)
Administrative expenses		(5,436)	(1,003)	(9,150)	(1,821)
Profit from operations		15,901	13,727	27,464	20,441
Finance cost		—	(1)	—	(281)
Profit before taxation	4	15,901	13,726	27,464	20,160
Taxation	5	—	—	—	—
Profit attributable to shareholders		15,901	13,726	27,464	20,160
Basic earnings per share	7	3.4 cents	4.6 cents	6.2 cents	6.7 cents

## CONSOLIDATED BALANCE SHEET

		<b>Unaudited 30 September 2002 HK\$'000</b>	Audited 31 March 2002 HK\$'000
	<i>Note</i>		
<b>Non-current assets</b>			
Fixed assets	8	<b>115,382</b>	868
Construction in progress	8	—	79,729
Goodwill	8	<b>747</b>	796
		<u><b>116,129</b></u>	<u>81,393</u>
<b>Current assets</b>			
Inventories		<b>5,799</b>	4,662
Trade receivables	9	<b>42,360</b>	43,356
Other receivables, deposits and prepayments		<b>12,252</b>	11,214
Cash and bank balances		<b>219,470</b>	54,869
		<u><b>279,881</b></u>	<u>114,101</u>
<b>Current liabilities</b>			
Trade payables	10	<b>19,564</b>	9,473
Other payables and accruals	11	<b>36,584</b>	6,911
		<u><b>56,148</b></u>	<u>16,384</u>
<b>Net current assets</b>		<u><b>223,733</b></u>	<u>97,717</u>
<b>Net assets</b>		<u><b>339,862</b></u>	<u>179,110</u>
<b>Financed by:</b>			
Share capital	12	<b>48,500</b>	41,500
Reserves		<b>291,362</b>	137,610
<b>Shareholders' funds</b>		<u><b>339,862</b></u>	<u>179,110</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Unaudited  
For the six months  
ended 30 September

	<b>2002</b>	2001
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Net cash inflow from operating activities</b>	<b>43,421</b>	1,592
<b>Net cash outflow from investing activities</b>	<b>(11,969)</b>	(31,438)
<b>Net cash inflow/(outflow) before financing</b>	<b>31,452</b>	(29,846)
<b>Net cash inflow from financing</b>	<b>133,192</b>	17,222
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>164,644</b>	(12,624)
<b>Effect of foreign exchange rates</b>	<b>(43)</b>	—
Cash and cash equivalents at 1 April	<b>54,869</b>	22,824
Cash and cash equivalents at 30 September	<b>219,470</b>	10,200
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	<b>219,470</b>	10,200

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share	Share	Unaudited		Retained	Total
	capital	premium	Merger	Exchange	earnings	
	HK\$'000	HK\$'000	reserve	reserve	HK\$'000	HK\$'000
Balance						
at 1 April 2002	41,500	36,329	54,193	(199)	47,287	179,110
Exchange differences	—	—	—	96	—	96
Issuance of shares (see note 12)	7,000	133,000	—	—	—	140,000
Share issue expenses	—	(6,808)	—	—	—	(6,808)
Profit for the six months ended 30 September 2002	—	—	—	—	27,464	27,464
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance						
at 30 September 2002	48,500	162,521	54,193	(103)	74,751	339,862
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Balance						
at 1 April 2001	11	—	—	—	5,694	5,705
Capitalisation issue	3	—	54,180	—	—	54,183
Profit for the six months ended 30 September 2001	—	—	—	—	20,160	20,160
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Balance						
at 30 September 2001	14	—	54,180	—	25,854	80,048
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# NOTES TO THE INTERIM REPORT

## 1. Background

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. Pursuant to a corporate reorganization to rationalize the structure of the Group in preparation of the listing of the Company's shares (the "Reorganisation") on the Growth Enterprise Market (the "GEM"), the Company became the holding company of the Group on 18 December 2001. The Group is regarded as a continuing entity resulting from the Reorganisation and has been accounted for on the basis of merger accounting. Directors are of the opinion that the interim report prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

The unaudited interim report have been reviewed by the Company's audit committee. The interim report has been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and are in compliance with SSAP 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The interim report should be read in conjunction with the 2001/2002 annual financial statements.

The accounting policies used in the preparation of the interim report are consistent with those used in the annual report for the year ended 31 March 2002, except that the Group has changed certain of its accounting policies following the adoption of the following Statements of Standard Accounting Practice (SSAPs) issued by HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 25 (revised)	:	Interim financial reporting
SSAP 26 (revised)	:	Segment reporting
SSAP 33	:	Discontinuing operations
SSAP 34	:	Employee benefits

## 2. Turnover

The principal activities of the Group are the manufacture and sales of blood recovery machines ("Machines") and disposable blood processing chambers and related accessories ("Disposable Chambers").

Turnover represents the invoiced value of goods sold, net of discounts and returns, allowances and sales tax, and may be analysed as follows:

	<b>Unaudited</b> <b>For the three months</b> <b>ended 30 September</b>		<b>Unaudited</b> <b>For the six months</b> <b>ended 30 September</b>	
	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Sales of :				
Machines	<b>28,601</b>	20,967	<b>49,472</b>	31,467
Disposable Chambers	<b>2,107</b>	2,463	<b>4,466</b>	4,355
	<b>30,708</b>	23,430	<b>53,938</b>	35,822

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

## 3. Other revenue

Other revenue represents interest income from bank deposits.

#### 4. Profit before taxation

Profit before taxation is arrived at after charging the following items:

	Unaudited For the three months ended 30 September		Unaudited For the six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
(a) Finance cost				
Interest on bank loan repayable within five years	—	1	—	281
(b) Other items:				
Amortisation of goodwill	24	24	49	49
Depreciation	83	23	127	47
Operating lease rentals in respect of properties	977	272	1,727	450
Research and development	608	47	1,152	94
Staff costs (including directors' remuneration)				
Wages and salaries	1,281	321	3,328	637
Retirement benefits	39	17	80	32

Note: Research and development expenditure included the salary costs of technical staff which are also included in staff costs.

## 5. Taxation

### (i) *Hong Kong Profits Tax*

No provision for Hong Kong Profits Tax has been made for the six months ended 30 September 2002 (2001: Nil) as the Group did not have assessable profits subject to Hong Kong Profits Tax during the period.

### (ii) *PRC income tax*

The Company's subsidiary in the PRC is subject to PRC income tax, at a reduced rate of 15%. In accordance with the relevant tax rules and regulations in the PRC, the subsidiary is exempted from PRC income tax for the six months ended 30 September 2002 and 2001.

### (iii) *Deferred taxation*

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

## 6. Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30 September 2002 (2001: Nil).

## 7. Basic earnings per share

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

The calculation of basic earnings per share for the three months and six months ended 30 September 2002 is based on the consolidated profit attributable to shareholders of HK\$15,901,000 and HK\$27,464,000 respectively divided by the weighted average number of 466,739,130 and 441,010,929 shares respectively for the three months and six months ended 30 September 2002 in issue during the periods.

The calculation of basic earnings per share for the three months and six months ended 30 September 2001 is based on the consolidated profit attributable to shareholders of HK\$13,726,000 and HK\$20,160,000 respectively divided by 300,000,000 shares, prior to the placing but after adjusting the effect of the capitalisation issue as described in Appendix V to the prospectus issue by the Company dated 19 December 2001 (the "Prospectus").

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

No diluted earnings per share is presented as there are no dilutive potential shares in issue during the period.

## 8. Fixed assets , construction in progress and goodwill

	Fixed assets <i>HK\$'000</i>	Unaudited Construction in progress <i>HK\$'000</i>	Goodwill <i>HK\$'000</i>
<b>Cost</b>			
At 1 April 2002	1,053	79,729	966
Additions	1,604	33,308	—
Transfer from construction in progress to fixed assets	113,037	(113,037)	—
	<u>115,694</u>	<u>—</u>	<u>966</u>
At 30 September 2002	<u>115,694</u>	<u>—</u>	<u>966</u>
<b>Accumulated depreciation/amortisation</b>			
At 1 April 2002	185	—	170
Charge for the period	127	—	49
	<u>312</u>	<u>—</u>	<u>219</u>
At 30 September 2002	<u>312</u>	<u>—</u>	<u>219</u>
<b>Net book value</b>			
At 30 September 2002	<u>115,382</u>	<u>—</u>	<u>747</u>

## 9. Trade receivables

Customers are generally granted with credit terms of 2 to 6 months.

Details of the ageing analysis are as follows:

	Unaudited 30 September 2002 <i>HK\$'000</i>	Audited 31 March 2002 <i>HK\$'000</i>
Within 6 months	40,739	41,204
Between 6 to 12 months	1,366	1,377
Over one year	255	775
	<u>42,360</u>	<u>43,356</u>

## 10. Trade payables

The Group is normally granted with credit terms of 1 to 2 months from its suppliers. Details of the ageing analysis are as follows:

	<b>Unaudited 30 September 2002 HK\$'000</b>	Audited 31 March 2002 HK\$'000
Due within 1 month or on demand	<b>19,564</b>	9,473

## 11. Other payables and accruals

Included in other payables and accruals as at 30 September 2002 is an amount of approximately HK\$5.8 million VAT rebate. The Group is entitled to a VAT rebate on sales of the software embedded inside the Machines for initial period until December 2006. The length of the VAT rebate could be further extended to 31 December 2010 upon the renewal of the Software Product Registration certificate.

The Group could apply the VAT rebate for specific areas as stipulated in the relevant PRC regulations. No VAT rebate was credited to the income statement during the six months ended 30 September 2002.

## 12. Share capital

	<b>No. of shares ( '000)</b>	<b>HK\$'000</b>
Authorised:		
Ordinary shares of HK\$0.10 each ("Shares")	<u>1,000,000</u>	<u>100,000</u>
Issued and fully paid:		
As at 1 April 2002	415,000	41,500
Issuance of Shares ( <i>note i</i> )	<u>70,000</u>	<u>7,000</u>
As at 30 September 2002	<u>485,000</u>	<u>48,500</u>

Notes:

- (i) On 10 July 2002, the Company and Bio Garden Inc. ("Bio Garden"), the then holding company of the Company, entered into a placing agreement with ICEA Capital Limited to place an aggregate of 70,000,000 Shares (including an over-allotment option of 20,000,000 Shares ) at HK\$2.00 each. Bio Garden and the Company also entered into a subscription agreement on the same date pursuant to which, upon the completion of placing, Bio Garden would in turn subscribe for the same number of Shares at HK\$2.00 each (net of expenses). The subscription for 70,000,000 Shares was completed on 24 July 2002.
- (ii) All the issued Shares of the Company rank *pari passu* and do not carry pre-emptive rights.

### 13. Commitments

#### (a) Capital commitments

- (i) Capital commitments in respect of the construction of a factory, its renovation and purchases of plant and machinery and other fixed assets outstanding at 30 September 2002 not provided for in the interim report were as follows:

	<b>Unaudited 30 September 2002 HK\$'000</b>	Audited 31 March 2002 HK\$'000
Contracted for	<u>—</u>	<u>4,395</u>

- (ii) Capital commitments in respect of the investment in Beijing Yuande Biological Medical Engineering Limited ("Beijing Yuande") at 30 September 2002 not provided for in the interim report were as follows:

	<b>Unaudited 30 September 2002 HK\$'000</b>	Audited 31 March 2002 HK\$'000
Contracted for	<u>38,730</u>	<u>—</u>

#### (b) Operating lease commitments

At 30 September 2002, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>Unaudited 30 September 2002 HK\$'000</b>	Audited 31 March 2002 HK\$'000
Within 1 year	<u>2,791</u>	<u>3,891</u>
After 1 year but within 5 years	<u>2,298</u>	<u>2,091</u>
	<u><b>5,089</b></u>	<u><b>5,982</b></u>

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 include contingent rentals.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

For the six months ended 30 September 2002, turnover of the Group amounted to HK\$53,938,000, representing a significant growth of approximately 51% over the corresponding period in 2001. The increase in turnover was attributable to growing recognition and acceptance of the Group's blood recovery system ("ABRS") in the PRC, and enhanced marketing efforts. For the six months ended 30 September 2002, the Group sold 446 sets of Machines, and 9,144 units of Disposable Chambers.

The Group's gross profit margin remained at 72% for the period under review. Similar to other hi-tech companies, the relatively high gross profit margin provides recurring resources to the Group for future investments.

The Group recorded a profit before taxation of approximately HK\$27,464,000 for the six months ended 30 September 2002, representing an increase of approximately 36% over the corresponding period in 2001.

### **OPERATION REVIEW**

The Group moved to the new production plant in October 2002. The move allows all of its dispersed operations to be centralised and thus allows for ease in management. The existing production facilities are kept running for a while to ensure the smooth production transition.

The high safety standard of the Group's ABRS was reiterated by the initial coverage of product liability insurance by one of the leading insurance companies in the PRC. Such product liability insurance coverage enhances the image of the ABRS, which the Directors believe will speed up its penetration into hospitals.

Apart from the Group's ABRS, the Group continued to invest heavily in research and development ("R&D") activities. The Group's dedicated R&D efforts had paid off. The Board expects that the Group will obtain the approval from the State Drug Administration Bureau (the "SDA") on its portable blood recovery system ("Portable ABRS") by the end of this year, and plans to launch it into the market in the beginning of next year. The potential market for the Portable ABRS is enormous, with initial targets being the army, ambulances, emergency units etc.



In addition, the Group has devoted resources and attention to accelerate development of other new products to capture the growing PRC market. As at 30 September 2002, the Group has three other research projects under development, namely: blood component extraction system (the "Extraction System"), new filtering system and liver cleansing system (formerly known as the whole blood protein recovery system ("Protein System")). These projects have made steady progress during the period under review and the Board believes that they are on track to reach the final stages of development next year.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

On 23 September 2002, the Company announced that its wholly-owned subsidiary entered into a conditional subscription agreement ("Subscription Agreement") to subscribe for new shares issued by Beijing Yuande, representing 25% of the enlarged share capital of Beijing Yuande for a cash consideration of US\$4,965,400. The consideration will be settled from the net proceeds from the placement of 70,000,000 Shares at a placing price of HK\$2.00 each in July 2002. A subsidiary of a multi-national public company engaged in the design, manufacture and sale of medical equipment will be co-investing in Beijing Yuande together with the Group, subscribing for 15% of the enlarged share capital of Beijing Yuande for a cash consideration of US\$2,979,240. The co-investor has been granted a stock option by the existing controlling shareholder of Beijing Yuande to increase its interest in Beijing Yuande by 5% to 20% within three years after closing of the Subscription Agreement.

Beijing Yuande is principally engaged in the development, manufacture and sales of high intensity ultrasound medical equipment used for scanning and treating cancerous tumors. The Board believes that the investment in Beijing Yuande will provide the Group with various synergies and is complementary to the Group's existing business.

The Subscription Agreement is subject to fulfillment of certain terms and conditions, and may be terminated if not closed within 120 days from the date of the Subscription Agreement.

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

## **PROSPECTS**

The PRC's medical equipment sector is a market with tremendous growth potential. Recently, the PRC government has launched a series of measures to strengthen the quality of blood supply in hospitals, and to alleviate the problems caused by blood contamination and shortages. In view of such governmental policy and the Group's expertise, the Board believes that the demand for the Group's ABRS will continue to grow significantly in the near future. Besides, the improved domestic economy has prompted greater health consciousness among the general public, which demand better and higher quality health care. This opens the door for fairly priced advanced medical equipment such as the Group's to enter into in the PRC.

With the Group's strong management team and research and development capabilities, the Group is well-positioned to capture suitable business opportunities in the PRC. The Group will continue to focus on developing new medical equipment which are suitable for the PRC market. The Board is confident that the success of the Group will continue in the future bringing long-term sustainable benefits to all its shareholders.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 September 2002, the Group had cash and bank balances of approximately \$219 million, and net current assets of approximately HK\$280 million. The Group maintained a strong working capital position during the period under review. As at 30 September 2002, the Group had current liabilities of approximately HK\$56 million, but no long-term liabilities.

The Group did not have any bank borrowings, any banking facilities or any charge on its assets as at 30 September 2002. The gearing ratio, as a percentage of total bank borrowings over total assets, was nil (2001: nil).

During the period under review, the Company raised an additional HK\$133 million from the placement of 70,000,000 Shares at HK\$2.00 each. The net proceeds are intended to finance the investment in Beijing Yuande described above and other suitable investment opportunities. Apart from equity financing, the Group generally finances its operations and any possible expansion plans with its internal resources.

Surplus cash are generally deposited with financial institutions in Hong Kong and the PRC to earn interest income.

## **EXCHANGE RISK**

The Group's sales are mainly transacted in Renminbi. Since the exchange rate fluctuation between Hong Kong dollars and Renminbi is minimal, the Board considers that the exchange risk the Group is exposed to is very low and accordingly, no hedging arrangement was made during the period under review.

## **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 conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

## **COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS**

**According to the Statement of Business Objectives as stated in the Prospectus**

**Actual business progress from 1 April 2002 to 30 September 2002**

### **1. Sales and distribution**

Sales of Disposable Chambers account for a larger portion of the Group's turnover and net profit after tax.

Due to the lack of production capacity in Disposable Chambers in the past and hesitation by some doctors to promote the use of ABRS during surgical operations, sales of Disposable Chambers did not increase as much as sales of the Machines. With the Group's new plant put into operation, and enhanced promotional campaigns among doctors, the Directors believe that sales of Disposable Chambers will account for a larger portion of the Group's turnover and profit after tax in the future.

**According to the Statement of Business Objectives as stated in the Prospectus**

**Actual business progress from 1 April 2002 to 30 September 2002**

**2. Research and development**

2.1 A prototype of the Portable ABRS is expected to be produced.

The development of the Portable ABRS is ahead of schedule. The prototype had been produced and is currently pending approval from SDA. The Group expects to obtain SDA approval by the end of this year and launch the Portable ABRS in the beginning of 2003.

2.2 Continue the development on the Extraction System and the Protein System.

Satisfactory progress on the Extraction System and the Protein System has been made. The Group expects these development projects to reach the final stage of developments in the second half 2003.

2.3 Around HK\$1,000,000 applied to the research studies carried out by the Blood Transfusion Research Institute of the Military Medical Science University (the "Institute").

Sums were set aside to the Institute for general studies on blood purification and blood preservation techniques. The findings will be used for future development of other medical equipment. Payments will be made to the Institute by the end of each fiscal year.

**3. Production**

3.1 The operation of the new plant will be closely monitored to ensure its compliance with ISO 9001 requirements.

The Group's production procedure prior to completion of the new plant had passed ISO 9001 requirements. The Directors will implement the existing production procedure on the new plant and ensure that it fully complies with ISO 9001 standards.

**According to the Statement of  
Business Objectives as stated in the  
Prospectus**

**4. Promotion**

4.1 Aggressive promotion scheme will be launched to enhance the Group's brand name. It will place advertisements on professional medical magazines, sponsor blood-related campaigns launched by the SDA, the Ministry of Health, etc., organize seminars and participate in medical equipment trade fairs.

**Actual business progress from  
1 April 2002 to 30 September  
2002**

Although trial use scheme is still carried out in certain large hospitals, the Group has stopped granting any further trial use scheme because of the overwhelming demand from hospitals.

Instead, the Group has launched a series of promotional campaigns, participated in a number of industry-related exhibitions across the PRC and placed advertisements on professional medical magazines to draw the attention of doctors and medical specialists.

The Group has made significant inroads in establishing its own brand name in the PRC.

## USE OF PROCEEDS

The Company raised net proceeds of approximately HK\$78 million and HK\$133 million respectively from the issue of 115,000,000 Shares upon the initial listing on the GEM on 28 December 2001 and the placement of 70,000,000 Shares in July 2002 respectively.

The Group has utilised about HK\$53 million of the net proceeds as follows:

	<b>Planned use of net proceeds as set out in the Prospectus</b> <i>(HK\$' million)</i>	<b>Actual use of the net proceeds</b> <i>(HK\$' million)</i>
Construction of new plant	30.5	32.5
Purchase of production equipment	15.0	17.0
Research and development	1.5	2.1
Advertising and promotion	1.8	1.3
	<u>48.8</u>	<u>52.9</u>

Amounts not yet utilised has been deposited with financial institutions to generate interest income for the Group. The Directors intend to apply such funds in accordance with the statement of business objectives as set out in the Prospectus and the circular dated 30 July 2002.

## DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2002.

## CONTINGENT LIABILITIES

The Directors are not aware of any material contingent liabilities as at 30 September 2002.

## EMPLOYEES

As at 30 September 2002, the Group had 160 employees. Remuneration is determined in accordance with government policies and by reference to market conditions and the performance, qualifications and experience of individual employees. The Board has long recognized that talent is vital to the Group's rapid expansion. Discretionary bonuses on outstanding performance are paid to employees as recognition for their contribution to the Group.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES OF THE COMPANY

As at 30 September 2002, according to the register maintained by the Company pursuant to Section 29 of Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the Directors' interests in the Shares were as follows:

<b>Name of directors</b>	<b>No. of Shares held (Corporate interest)</b>
Mr. Kam Yuen ( <i>note</i> )	238,800,000
Ms. Chau Mei Chun ( <i>note</i> )	—
Mr. Leung Shi Wing ( <i>note</i> )	—

*Note:* Mr. Kam Yuen, Ms. Chau Mei Chun and Mr. Leung Shi Wing are beneficially interested in 75 per cent, 6 per cent and 19 per cent respectively of the entire issued share capital of Bio Garden which held 238,800,000 Shares as at 30 September 2002.

Save as disclosed above, as at 30 September 2002, none of the Directors, chief executives of the Company and their associates had any personal, family, corporate or other interest in any securities of the Company or any of its associated corporations (as defined in the SDI Ordinance) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.41 to 5.59 of the GEM Listing Rules.

## SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 30 July 2002 whereby the Board is authorised, at its discretion, to invite full-time employees and/or executive and independent non-executive directors of the Group to take up options to subscribe for Shares. The exercise price of options granted under the Share Option Scheme shall at least be the higher of (i) the closing price of the Shares on the date of offer and (ii) the average closing price of the Shares for the five business days immediately preceding the date of offer. Options granted under the Share Option Scheme are exercisable for a period to be determined by the Board but which shall not be in any event commence earlier than 27 December 2002 and shall not be longer than 10 years after the date on which the option is offered.

As at 30 September 2002, no option has been offered pursuant to the Share Option Scheme.

## DIRECTORS' RIGHT TO ACQUIRE SHARES

Other than the Share Option Scheme described above, at no time during the period under review was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of Shares in or debentures of the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, those persons other than the Directors and chief executives of the Company having an interest of 10% or more in the Company's issued capital, as recorded in the register required to be kept under Section 16(1) of the SDI Ordinance, were as follows:

<b>Name</b>	<b>Number of Shares</b>	<b>Approximate percentage of issued Shares</b>
Bio Garden	238,800,000	49.2%

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at 30 September 2002.



## **SPONSOR'S INTERESTS**

Pursuant to a sponsorship agreement entered into between ICEA Capital Limited (the "Sponsor") and the Company dated 18 December 2001, the Sponsor will receive a fee for acting as the Company's retained sponsor for the period from 28 December 2001 to 31 March 2004. The Sponsor receives additional financial advisory and documentation fees for acting as the Company's financial adviser in relation to certain transactions.

According to the notification from the Sponsor, as at 30 September 2002, an affiliate of the Sponsor held 4,380,000 Shares, representing approximately 0.9% of the issued share capital of the Company.

Save as disclosed above and 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 30 September 2002.

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

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the six months ended 30 September 2002.

## **COMPETING INTEREST**

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

## **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 six months ended 30 September 2002.

## **AUDIT COMMITTEE**

The Group has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Group's annual report and financial statements, interim report and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the Group's financial reporting and internal control procedures. The audit committee comprises Mr. Gu Qiao and Mr. Gao Zong Ze. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed accounting issues, internal control and financial matters including the review of the unaudited interim report of the Group for the six months ended 30 September 2002.

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

HONG KONG, 13 November 2002