



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

Interim Report 2003/2004

GOLDEN
MEDITECH
COMPANY
LIMITED



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This report, for which the directors (the “Directors”) of Golden Meditech Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- For the six months ended 30 September 2003, turnover of the Group reached HK\$72,829,000, representing a significant increase of approximately 35% as compared with the corresponding period in 2002.
- Profit attributable to shareholders for the six months ended 30 September 2003 was HK\$46,549,000, representing a significant increase of approximately 69% over the corresponding period in 2002.
- On 15 September 2003, the Group completed the acquisition of 51% equity interest in Jia Chen Hong, which is engaged in the provision of blood stem cells storage facilities and accessories services in the PRC.
- Basic earnings per Share were HK9.5 cents for the period under review.
- The Medical Devices Segment sold approximately 440 sets of Machines, 28,000 units of Disposable Chambers and 110 sets of Portable ABRS for the six months ended 30 September 2003.
- The Cord Blood Bank Segment recorded a small profit for the period from 16 September 2003 to 30 September 2003.
- The Tumour Division sold more than 10 units of HIFU medical devices for the six months ended 30 September 2003.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2003.

HALF-YEARLY RESULTS (UNAUDITED)

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 September 2003 as follows:

CONSOLIDATED INCOME STATEMENT

		Unaudited For the three months ended 30 September		Unaudited For the six months ended 30 September	
	Note	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	48,142	30,708	72,829	53,938
Cost of sales		(13,954)	(8,768)	(21,820)	(15,261)
Gross profit		34,188	21,940	51,009	38,677
Other revenue	3	3,832	409	5,770	458
Selling expenses		(1,416)	(1,012)	(2,087)	(2,521)
Administrative expenses		(6,681)	(5,436)	(13,187)	(9,150)
Profit from operations	4	29,923	15,901	41,505	27,464
Finance costs		(37)	—	(37)	—
Share of profit from associate		5,332	—	5,442	—
Profit from ordinary activities before taxation		35,218	15,901	46,910	27,464
Taxation	5	(296)	—	(296)	—
Profit from ordinary activities after taxation		34,922	15,901	46,614	27,464
Minority interests		(65)	—	(65)	—
Profit attributable to shareholders		34,857	15,901	46,549	27,464
Dividends	6	14,550	—	14,550	—
Earnings per Share					
- Basic	7	7.1 cents	3.4 cents	9.5 cents	6.2 cents
- Diluted	7	7.0 cents	N/A	9.4 cents	N/A

The notes on pages 7 to 18 form part of this interim report.

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	Unaudited 30 September 2003 HK\$'000	Audited 31 March 2003 HK\$'000
Non-current assets			
Fixed assets	8	141,668	131,677
Construction in progress	8	32,376	7,176
Interest in associate		44,681	39,535
Goodwill	9	71,949	698
		<u>290,674</u>	<u>179,086</u>
Current assets			
Inventories		84,235	4,599
Trade receivables	10	68,956	48,726
Other receivables, deposits and prepayments		6,747	47,121
Cash and bank balances		166,917	160,215
		<u>326,855</u>	<u>260,661</u>
Current liabilities			
Trade payables	11	35,127	29,236
Other payables and accruals		19,604	21,446
Short-term bank loan	12	28,273	—
		<u>83,004</u>	<u>50,682</u>
Net current assets		<u>243,851</u>	<u>209,979</u>
Total assets less current liabilities		534,525	389,065
Minority interests		<u>45,448</u>	—
Net assets		<u>489,077</u>	<u>389,065</u>
Capital and reserves:			
Share capital	13	52,500	48,500
Reserves	14	436,577	340,565
		<u>489,077</u>	<u>389,065</u>

The notes on pages 7 to 18 form part of this interim report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited
For the six months
ended 30 September

	<i>Note</i>	2003 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Total equity as at 1 April			389,065		179,110
Exchange differences on translation of the financial statements of entities outside Hong Kong	14		(27)		96
Profit for the period	14		46,549		27,464
Dividends paid during the period	14		(14,550)		—
Movement in share capital					
- Shares issued	13	4,000		7,000	
- Share premium arising from issue of Shares	14	64,040		126,192	
			68,040		133,192
Total equity as at 30 September			489,077		339,862

The notes on pages 7 to 18 form part of this interim report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Unaudited
For the six months
ended 30 September

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Net cash inflow from operating activities	33,004	43,421
Net cash outflow from investing activities	(11,715)	(11,969)
Net cash inflow before financing	21,289	31,452
Net cash (outflow)/inflow from financing	(14,587)	133,192
Increase in cash and cash equivalents	6,702	164,644
Effect of foreign exchange rates changes	—	(43)
Cash and cash equivalents as at 1 April	160,215	54,869
Cash and cash equivalents as at 30 September	166,917	219,470
Analysis of balances of cash and cash equivalents		
Cash and bank balances	166,917	219,470

The notes on pages 7 to 18 form part of this interim report.

NOTES TO THE INTERIM REPORT

1. Basis of preparation and accounting policies

The unaudited interim report has 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, and is in compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA").

The interim report should be read in conjunction with the annual report for the year ended 31 March 2003.

The accounting policies and methods of computation used in the preparation of the interim report are consistent with those used in the annual report for the year ended 31 March 2003, except that the Group has adopted the new and revised SSAPs which became effective for the Company's accounting period. The adoption of those new and revised SSAPs has no material effect on the Group's results for the current or prior accounting periods.

2. Segment information

(i) Primary reporting format - business segments

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

Medical Devices Segment - the development, manufacture and sale of medical devices; and

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

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

	For the six months ended		
	30 September 2003		
	<i>HK\$'000</i>		
	Medical Devices Segment	Cord Blood Bank Segment	Consolidated
Turnover	<u>72,322</u>	<u>507</u>	<u>72,829</u>
Segment results	<u>46,414</u>	<u>132</u>	46,546
Unallocated costs			<u>(5,041)</u>
Profit from operations			41,505
Finance cost			(37)
Share of profit from associate			<u>5,442</u>
Profit from ordinary activities before taxation			46,910
Taxation			<u>(296)</u>
Profit from ordinary activities after taxation			46,614
Minority interests			<u>(65)</u>
Profit attributable to shareholders			<u>46,549</u>

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

**For the six months ended
30 September 2002**

HK\$'000

	Medical Devices Segment	Cord Blood Bank Segment	Consolidated
Turnover	53,938	—	53,938
Segment results	33,528	—	33,528
Unallocated costs			(6,064)
Profit from ordinary activities before taxation			27,464
Taxation			—
Profit from ordinary activities after taxation			27,464
Minority interests			—
Profit attributable to shareholders			27,464

(ii) Secondary reporting format - geographical segments

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

3. Other revenue

	Unaudited For the three months ended 30 September		Unaudited For the six months ended 30 September	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest income	400	409	825	458
Government subsidies (<i>Note</i>)	3,432	—	4,945	—
	<u>3,832</u>	<u>409</u>	<u>5,770</u>	<u>458</u>

Note:

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

4. Profit from operations

Profit from operations is stated after charging the following items:

	Unaudited For the three months ended 30 September		Unaudited For the six months ended 30 September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amortisation of goodwill	173	24	196	49
Depreciation	2,427	83	4,772	127
Operating lease rentals in respect of properties	667	977	1,287	1,727
Research and development costs (<i>Note</i>)	565	608	1,263	1,152
Staff costs (including directors' remuneration)				
- Salaries, wages and other benefits	1,620	1,281	3,475	3,328
- Contributions to defined contribution plans	188	39	384	80

Note:

Research and development costs included the salary costs of technical staff, which are also included in staff costs.

5. Taxation

Taxation charged to the consolidated income statement represents:

	Unaudited For the three months ended 30 September		Unaudited For the six months ended 30 September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Share of associate's taxation	296	—	296	—

No provision for Hong Kong Profits Tax has been made for the six months ended 30 September 2003 (2002: Nil) as the Group did not have assessable profits subject to Hong Kong Profits Tax during the period.

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

No provision for deferred taxation has been made as there were no significant unprovided deferred tax liabilities or deferred tax assets as at 30 September 2003 (2002: Nil).

6. Dividends

	Unaudited For the three months ended 30 September		Unaudited For the six months ended 30 September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Final dividends paid: HK\$0.03 per Share for the year ended 31 March 2003 (31 March 2002: Nil)	14,550	—	14,550	—

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2003 (2002: Nil).

7. Earnings per Share

(i) *Basic earnings per Share*

The calculation of basic earnings per Share for the three months and six months ended 30 September 2003 is based on the unaudited consolidated profit attributable to shareholders of HK\$34,857,000 and HK\$46,549,000 respectively divided by the weighted average number of 491,521,739 and 488,278,689 Shares respectively in issue during the periods.

The calculation of basic earnings per Share for the three months and six months ended 30 September 2002 is based on the unaudited 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 in issue during the periods.

(ii) *Diluted earnings per Share*

The calculation of diluted earnings per Share for the three months and six months ended 30 September 2003 is based on the unaudited consolidated profit attributable to shareholders of HK\$34,857,000 and HK\$46,549,000 respectively divided by the weighted average number of 498,158,581 and 492,785,326 Shares respectively in issue during the periods after adjusting for the effects of all dilutive potential Shares.

No diluted earnings per Share is presented for the three months and six months ended 30 September 2002 as there were no dilutive potential Shares in existence during the periods.

8. Fixed assets and construction in progress

The changes in fixed assets and construction in progress for the six months ended 30 September 2003 are analysed as follows:

	Unaudited	
	Fixed assets	Construction in progress
	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 April 2003	131,677	7,176
On acquisition of a subsidiary	12,205	26,072
Additions	1,686	—
Transfer from construction in progress to fixed assets	872	(872)
Depreciation charge for the period	(4,772)	—
	<hr/>	<hr/>
As at 30 September 2003	<u>141,668</u>	<u>32,376</u>

9. Goodwill

The changes in goodwill for the six months ended 30 September 2003 are analysed as follows:

	<i>HK\$'000</i>
As at 1 April 2003	698
On acquisition of a subsidiary	71,447
Amortisation for the period	(196)
	<hr/>
As at 30 September 2003	<u>71,949</u>

Goodwill is amortised on a straight-line basis over their economic useful lives at a range between 10 and 20 years.

10. 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 2003 HK\$'000	Audited 31 March 2003 HK\$'000
Within 6 months	67,799	47,211
Between 7 to 12 months	1,070	1,166
Over one year	87	349
	<hr/>	<hr/>
	68,956	48,726
	<hr/> <hr/>	<hr/> <hr/>

The Group maintains strict control over its outstanding receivables and has a credit control policy to minimise credit risks. Overdue balances are regularly monitored by management.

11. Trade payables

The Group is normally granted with credit terms of 1 to 3 months by its suppliers.

Details of the ageing analysis are as follows:

	Unaudited 30 September 2003 HK\$'000	Audited 31 March 2003 HK\$'000
Due within 3 months or on demand	35,127	29,236
	<hr/> <hr/>	<hr/> <hr/>

12. Short term bank loan

The loan was obtained prior to the Group's acquisition of Beijing Jia Chen Hong Biological Technologies Company Limited ("Jia Chen Hong") and has been secured on assets provided by the then shareholder of Jia Chen Hong.

13. Share capital

	No. of shares	
	<i>'000</i>	<i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.10 each ("Shares")	1,000,000	100,000
	<u> </u>	<u> </u>
Issued and fully paid:		
As at 1 April 2003	485,000	48,500
Issuance of Shares (<i>Note i</i>)	40,000	4,000
	<u> </u>	<u> </u>
As at 30 September 2003	525,000	52,500
	<u> </u>	<u> </u>

Notes:

- (i) On 15 September 2003, 40 million Shares were allotted and recorded at HK\$1.7 each, which was the fair value calculated based on the average closing price quoted on the Stock Exchange for the month prior to the date of issuance of Shares, as part consideration for the Group's acquisition of 51% equity interest in Jia Chen Hong.
- (ii) All the issued Shares of the Company rank *pari passu* and do not carry pre-emptive rights.

14. Reserves

	Unaudited					Total HK\$'000
	Share premium HK\$'000	Merger reserve HK\$'000	Exchange reserve HK\$'000	Surplus reserve HK\$'000	Retained profits HK\$'000	
	As at 1 April 2003	162,521	54,193	21	7,307	
Exchange differences	—	—	(27)	—	—	(27)
Issuance of Shares	64,040	—	—	—	—	64,040
Profit for the period	—	—	—	—	46,549	46,549
Dividends (Note 6)	—	—	—	—	(14,550)	(14,550)
As at 30 September 2003	<u>226,561</u>	<u>54,193</u>	<u>(6)</u>	<u>7,307</u>	<u>148,522</u>	<u>436,577</u>
As at 1 April 2002	36,329	54,193	(199)	—	47,287	137,610
Exchange differences	—	—	220	—	—	220
Issuance of Shares	133,000	—	—	—	—	133,000
Share issue expenses	(6,808)	—	—	—	—	(6,808)
Transfer to surplus reserve	—	—	—	7,307	(7,307)	—
Profit for the period	—	—	—	—	76,543	76,543
As at 31 March 2003	<u>162,521</u>	<u>54,193</u>	<u>21</u>	<u>7,307</u>	<u>116,523</u>	<u>340,565</u>

15. Acquisition

On 15 September 2003, the Group completed the acquisition of 51% equity interest in Jia Chen Hong, which is engaged in the provision of blood stem cells storage facilities and accessories services in the PRC.

The total consideration of the investment amounted to HK\$118,040,000, which was settled by the issuance of 40 million Shares and HK\$50 million in cash.

The resulting goodwill of HK\$71,447,000 is amortised on a straight-line basis over 20 years.

16. Commitments

(i) Capital commitments

Capital commitments in respect of the construction of new blood stem cells storage facilities as at 30 September 2003 but not provided for in the interim report were as follows:

	Unaudited 30 September 2003 HK\$'000	Audited 31 March 2003 HK\$'000
Contracted but not provided for	<u>11,625</u>	<u>613</u>
Authorised but not contracted for	<u>75,394</u>	<u>—</u>

(ii) Operating lease commitments

As at 30 September 2003, total future minimum lease payments under non-cancelable operating leases were payable as follows:

	Unaudited 30 September 2003 HK\$'000	Audited 31 March 2003 HK\$'000
Within 1 year	<u>1,650</u>	<u>1,805</u>
After 1 year but within 5 years	<u>740</u>	<u>1,654</u>
	<u>2,390</u>	<u>3,459</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 includes contingent rentals.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover and gross profit margin

For the six months ended 30 September 2003, turnover of the Group reached HK\$72,829,000, representing a significant increase of 35% as compared with the corresponding period in 2002. The increase was attributable to the gradual recovery in capital expenditure on medical devices by hospitals following the abatement of Severe Acute Respiratory Syndrome (“SARS”), as well as the contribution from the Group’s newly acquired blood stem cells storage facilities.

The Group’s gross profit margin remained at around 70% 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.

Profit attributable to shareholders

The Group recorded profit attributable to shareholders of HK\$46,549,000 for the six months ended 30 September 2003, representing a significant increase of approximately 69% over the corresponding period in 2002.

Liquidity and financial resources

The Group continued to be in a strong financial position with HK\$489,077,000 shareholders’ funds as at 30 September 2003 (31 March 2003: HK\$389,065,000). Net current assets amounted to HK\$243,851,000 as at 30 September 2003 (31 March 2003: HK\$209,979,000), of which HK\$166,917,000 was cash and bank balances (31 March 2003: HK\$160,215,000).

As at 30 September 2003, the Group had current liabilities of HK\$83,004,000 (31 March 2003: HK\$50,682,000), but no long-term liability (31 March 2003: Nil).

During the period under review, the Group inherited a short-term bank loan of HK\$28,273,000 from its newly acquired subsidiary, Jia Chen Hong.

As at 30 September 2003, the gearing ratio, as a percentage of total bank borrowings over total assets, was 4.6% (31 March 2003: Nil).

In case additional resources are required, the Group is in an excellent position to obtain the necessary finances. Management will structure new finances in such a way to enhance shareholders' value.

Charges on group assets

As at 30 September 2003, none of the Group's assets was pledged as security for liability.

Exchange 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 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, management closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group can meet its funding requirements.

Contingent liabilities

The Directors are not aware of any material contingent liabilities as at 30 September 2003.

Employee information

As at 30 September 2003, the Group had 194 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 recognised that talent is vital to the Group's rapid expansion. Discretionary bonuses and shares options are granted to employees with outstanding performance as recognition of their contribution to the Group.

BUSINESS REVIEW

Overall review

This period marked another milestone in the Group's history. In September 2003, the Group completed the Cord Blood Bank acquisition which brought the Group a step closer to achieving its mission, i.e. to focus on blood related business as well as medical devices manufacturing. The Group's businesses now consist of: the development, manufacture and sale of medical devices, the provision of blood stem cells storage facilities and accessories services and investment in tumour treatment business.

The Group saw a gradual recovery in capital expenditure on medical devices by hospitals in the PRC in the second quarter following the abatement of the SARS. The management is confident that these buoyant market demands are likely to prevail for the rest of the year.

Medical Devices Segment

The production and sale of medical devices remained the principal activities of the Group. Sales of its flagship product, autologous blood recovery system ("ABRS"), which is made up of blood recovery machines ("Machines") and disposable chambers ("Disposable Chambers"), which are accessories of the Machines that need replacing after each blood transfusion, accounted for 83.3% of the total turnover of the Medical Devices Segment. The remainder came from the sale of the portable version of ABRS ("Portable ABRS"), which was launched in the market during the period.

Although the Group's first quarter results were hurt by the SARS outbreak, sales on medical equipment rebounded quickly in the second quarter. For the six months ended 30 September 2003, the Group sold approximately 440 sets (2002: 446 sets) of Machines, 28,000 units (2002: 9,144 units) of Disposable Chambers and 110 sets (2002: Nil) of Portable ABRS. The Group's business has now returned to the pre-SARS levels, and management is confident that the buoyant market demands will continue for the rest of the year. Furthermore, management believes that the SARS outbreak has raised the attention from professions in medical industry on the possible use of ABRS during operations, as SARS exposed the weaknesses in traditional blood transfusion system, which caused more and more hospitals to seek alternative blood transfusions methods.

Steady progress has also been made on projects in the pipeline. Two promising projects, for instant, plasma exchange equipment and blood collection system are expected to receive approval from the State Food and Drug Administration Bureau (the "SFDA") next year.

In addition, the Group is cooperating with the Blood Transfusion Research Institute of the Military Medical Science University (the “Institute”) to conduct researches in the field of blood related technologies. With the growing emphasis in the development of blood purification and blood preservation technologies, the Group will continue its innovative approach to develop more and more advanced medical devices in the future.

Cord Blood Bank Segment

On 15 September 2003, the Group completed the acquisition of 51% equity interest in Jia Chen Hong.

Jia Chen Hong was granted an Umbilical Cord Stem Cells Storage Permit by the Ministry of Health (the “MOH”) in September 2002, which enabled it to provide storage facilities for blood stem cells extracted from the umbilical cords of newborn babies. As the development history of this business is still at a very early stage, and its full potential has not yet been exploited, this segment recorded a small profit for the period ended 30 September 2003.

The Group plans to construct six new storage facilities in the most affluent regions in the PRC to exploit the potentials of this new market. It is estimated that these storage facilities will require capital investment by the Group and other shareholders of Jia Chen Hong to the extent of approximately HK\$120 million. It is intended that the Group’s share of this investment will be financed by internal resources and credit facility.

In the long run, management believes that this business will bring in stable earnings and cash flow to the Group as the Cord Blood Bank business has huge market potential and is highly profitable with high entry barriers.

Tumour Division

The Group’s co-investment with General Electric Company of the USA in Beijing Yuande Biological and Engineering Company Limited (“Beijing Yuande”), which is engaged in the development, manufacture and sale of high intensity focused ultrasonic (“HIFU”) medical devices for the treatment of certain tumours, has performed satisfactorily for the period under review. More than 10 units were sold to hospitals for the period under review, resulting in the Group’s share of net profit being HK\$5,442,000.

HIFU is a non-invasive technology being used to destroy certain tumours inside patients. In addition, the entire treatment process does not cause visible wounds and is painless to the patient. In view of that, it is currently undergoing the initial stage of clinical trials in the PRC in accordance with the requirements of the US Food and Drugs Administration.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 4 July 2003, the Group entered into a sale and purchase agreement (“S&P Agreement”) to acquire 51% equity interest in Jia Chen Hong. The acquisition was completed on 15 September 2003 with the consideration settled by the issuance of 40 million Shares at HK\$2.0 each and HK\$50 million in cash. The 40 million Shares were recorded in the financial statements at their fair value in accordance with the SSAPs, and details of which are stated in note 13 to the interim report. Thus, Jia Chen Hong has become a 51% owned subsidiary of the Group. As a result, its financial statements have been incorporated into the Group’s consolidated financial statements since 16 September 2003.

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. None of these discussions are in final stage, and save as disclosed above, the Group has not reached any agreement for other material investments or disposals.

PROSPECTS

Medical sector is one of the bright spots in the relatively weak global economies in the past few years. As for the PRC, the industry has enjoyed relatively strong growth, with recent growth rates being maintained at double digit figures. Such performance is largely attributable to the improvement in the living standards in the PRC, resulting in strong demand for better healthcare system. The outbreak of SARS further demonstrated the need for on-going improvements in the healthcare system. With the abatement of SARS, the Group will continue to focus on its existing operations while at the same time searching for promising investment opportunities. The Board believes that the Group can leverage on its strong management team and research and development capabilities to capture the growing business opportunities worldwide.

In addition, the current business structure in place has put the Group in a very strong position in bringing long-term sustainable benefits to all shareholders and providing recurring resources to the Group for future capital investments. The Group continues to see strong performance from both its Medical Devices Segment and Tumour Division, while the Cord Blood Bank Segment is expected to provide strong contributions to the Group once it has established various storage facilities across the PRC.

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 2003 to 30 September 2003

1. Sales and distribution

The Group plans to set up liaison offices in the southern region of the PRC. The primary strategic location will be Guangdong province and neighbouring coastal provinces.

Following a thorough review, management decided that it was not in the best interests of the Group to establish these offices in the southern region at this stage. The Group would manage the sales functions and maintain quality customer relationships through existing sales teams based in Beijing as well as its nationwide distribution network. Management will closely monitor the market condition and business opportunity and will establish these offices at the appropriate time.

2. Research and development

2.1 The Group will apply for the Registration Certificate for Medical Device from the SFDA in relation to its Portable ABRS, which the Directors estimate will take approximately 4-6 months.

The development of Portable ABRS was ahead of schedule. The Group obtained the SFDA approval for its Portable ABRS in early 2003 and since then, has sold this product in the PRC market. Sales of Portable ABRS accounted for 16.7% of the total turnover of the Medical Devices Segment during the period under review.

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

2.2 A prototype of the blood component extraction system (the “Extraction System”) is expected to be produced.

2.3 A prototype of the whole blood protein recovery system (the “Protein System”) is expected to be produced.

2.4 The research studies carried out by the Institute will require the funding of approximately HK\$1 million.

Actual business progress from 1 April 2003 to 30 September 2003

The prototype of the Extraction System has been produced and is currently pending the final SFDA approval. The Group expects to obtain the SFDA approval in 2004 and will launch the product in the market shortly afterwards. This will enlarge the Group’s product portfolio and provide the Group with additional sources of revenue.

Significant progress has been made in the development of the Protein System, and the Group is now undergoing preliminary studies on the effectiveness of the Protein System. The Group expects to obtain the SFDA approval in 2004 and will launch the product in the market shortly afterwards. This will enlarge the Group’s product portfolio and provide the Group with additional sources of revenue.

The Group has entered a 5-year co-operation agreement with the Institute to research on blood purification and blood preservation technologies. Payments are usually made to the Institute by the end of each fiscal year. The Institute has made progress on these two technologies, and the Directors believe that its findings will be very useful in developing new products.

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

Actual business progress from 1 April 2003 to 30 September 2003

3. Production

The Directors are confident that the Group should be able to obtain ISO9001 accreditation during this period.

The Group's production procedures have already obtained ISO9001 accreditation. The Group will maintain high production standard and ensure that ISO9001 standards are properly enforced throughout the production process.

4. Promotion

Similar to the scale and scope of activities last year, general promotion activities will be launched with the focus on the eastern coastal region.

As the Group's ABRS was selected by the MOH in early 2003 for nationwide adoption of ABRS in hospitals, general promotion and sales activities have been launched nationwide, rather than solely focusing on the eastern coastal region.

USE OF PROCEEDS

The Company raised approximately HK\$78 million, net of expenses, from the issuance of 115 million Shares upon the initial listing on the GEM in December 2001. Subsequently, the Company additionally raised approximately HK\$133 million, net of expenses, from the placement of 70 million Shares in July 2002.

The Group has utilised about HK\$150 million of 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 circular dated 30 July 2002 (the "Circular") as follows:

	Planned use of net proceeds as set out in the Prospectus and Circular <i>HK\$' million</i>	Actual use of the net proceeds <i>HK\$' million</i>
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	4.1
Advertising and promotion	5.0	2.8
	<u>63.0</u>	<u>59.9</u>
As stated in the Circular		
Investment in Beijing Yuande	50	39.5
Investment in other complementary businesses	75	<i>(Note)</i> 50.6
	<u>125</u>	<u>90.1</u>

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

Note:

Cash investment made by the Group in Jia Chen Hong.

DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2003.

DISCLOSURE OF INTERESTS OF DIRECTORS

As at 30 September 2003, the interests or short positions of the Directors and chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) **Long position in Shares**

Name of Director	Capacity	Number of Shares				Total interest	% of the Company's issued share capital
		Personal interest	Family interest	Corporate interest	Total interest		
Mr. Kam Yuen (Note)	Interest of controlled corporation	—	—	193,800,000	193,800,000	36.91	

Note:

Mr. Kam Yuen is the sole beneficial shareholder of the entire issued share capital of Bio Garden Inc., which held 193,800,000 Shares as at 30 September 2003.

(ii) **Long positions in underlying Shares**

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

Name of Director	Exercisable period	Number of underlying Shares in respect of which options granted as at 1 April 2003	Number of underlying Shares in respect of which options granted as at 30 September 2003
Mr. Lu Tian Long	1 April 2003 to 16 March 2013	4,000,000	4,000,000
Ms. Zheng Ting	1 April 2003 to 16 March 2013	2,000,000	2,000,000

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

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

During the six months ended 30 September 2003, none of the Directors was granted options to subscribe for the Shares nor had exercised any of the options granted.

Save as disclosed above, as at 30 September 2003, none of the Directors, chief executive of the Company and their associates had any personal, family, corporate or other interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

Pursuant to the Share Option Scheme, the Company granted 24,250,000 share options to executives and full-time employees (including two Executive Directors) to subscribe for the Shares. The principal terms of the Share Option Scheme are set out in note 23 to the financial statements as included in the annual report of the Company for the year ended 31 March 2003.

No share options were granted or exercised during the period under review. Details of the share options granted to two Executive Directors are set out above under the paragraph headed “(ii) Long positions in underlying Shares” under the section headed “Disclosure of Interests of Directors”, and details of the share options granted to other executives and full time employees as at 30 September 2003 were as follows:

Number of underlying Shares in respect of which options granted

Number of Employees	As at 1 April 2003	As at	Date of grant	Exercise period	Exercise price
		30 September 2003			
10	18,250,000	18,250,000	31 March 2003	1 April 2003 to 16 March 2013	HK\$1.15

DIRECTORS' RIGHT TO ACQUIRE SHARES

Other than the Share Option Scheme described above, at no time during the period under review was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate. In addition, no Director or chief executive or their respective spouses or children under eighteen years of age had been granted any right to subscribe for equity or debt securities of the Company nor had exercised any such right during the period under review.

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

As at 30 September 2003, the interest of the shareholders (not being Directors and the chief executive of the Company) in the Shares and underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO were as follows:

(i) Substantial shareholder

Name of substantial shareholder	Capacity	Number of Shares	% of the Company's issued share capital
Bio Garden Inc.	Beneficial owner	193,800,000 (<i>Note</i>)	36.91

Note:

Bio Garden Inc. is an investment holding company incorporated in the British Virgin Islands. Mr. Kam Yuen is the sole beneficial shareholder of the entire issued share capital of Bio Garden Inc. as at 30 September 2003.

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

Name of other persons who have more than 5% interest	Capacity	Number of Shares	Approximate % of the Company's issued share capital
JP Morgan Chase & Co.	Investment Manager	46,620,000	8.88
Beijing Wei Xiao Biological Technology Development Company Limited ("Beijing Wei Xiao")	Beneficial owner	40,000,000 (<i>Note</i>)	7.62
Wu Xiaodong ("Mr. Wu")	Interest of controlled corporation	40,000,000 (<i>Note</i>)	7.62
Bi Xiaoqiong ("Ms. Bi")	Interest of controlled corporation	40,000,000 (<i>Note</i>)	7.62

Note:

The Shares in which Beijing Wei Xiao is known as being interested are included in and duplicate with the interest in the Shares held by Mr. Wu and Ms. Bi, who are spouses. The equity interest in Beijing Wei Xiao is beneficially owned by Mr. Wu and Ms. Bi as to 51% and 49% respectively. As such, each of Mr. Wu and Ms. Bi is deemed under the SFO to have an interest in the Shares held by Beijing Wei Xiao.

Save as disclosed above, as at 30 September 2003, the Directors are not aware of any other person or corporation having an interest or short position in the Shares and underlying Shares of the Company representing 5% or more of the issued share capital of the Company.

SPONSOR'S INTERESTS

Pursuant to a sponsorship agreement entered into between ICEA Capital Limited (the "Sponsor") and the Company dated 18 December 2001, the Sponsor will receive a fee for acting as the Company's retained sponsor for the period from 28 December 2001 to 31 March 2004.

According to the notification from the Sponsor, as at 30 September 2003, an affiliate of the Sponsor held 2,388,000 Shares, representing approximately 0.45% of the issued share capital of the Company.

Save as disclosed above and to the best knowledge of the Sponsor, neither the Sponsor, its directors, employees nor associates had any interests in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 30 September 2003.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures during the six months ended 30 September 2003.

COMPETING INTERESTS

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

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

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

AUDIT COMMITTEE

The Group has established an audit committee with written terms of reference based upon the guidelines published by the HKSA. The primary duties of the audit committee are to review the Group's annual report and financial statements, interim report and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the Group's financial reporting and internal control procedures. The audit committee comprises Mr. Gu Qiao and Mr. Gao Zong Ze. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed accounting issues, internal control and financial matters including the review of the unaudited interim report of the Group for the six months ended 30 September 2003.

By order of the Board

KAM YUEN

CHAIRMAN

HONG KONG, 13 November 2003