



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



2004/2005
Interim Report

YOUR

life's blood is our life's work

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This report, for which the directors (the “Directors”) of Golden Meditech Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM 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 2004, turnover of the Group reached HK\$119,680,000, representing a significant increase of approximately 64% as compared with the corresponding period in 2003.
- Profit attributable to shareholders for the six months ended 30 September 2004 was HK\$73,416,000, representing a significant increase of approximately 58% over the corresponding period in 2003.
- On 6 September 2004, the Group completed the acquisition of a 51% equity interest in Qi Jie Yuan which is engaged in the research and development of Chinese herbal medicines. Qi Jie Yuan has successfully developed Tang Cao Pian, the first and sole natural ingredient Chinese herbal drug approved by the SFDA to treat HIV infection in the PRC.
- Basic earnings per share were HK6.17 cents for the period under review (as adjusted for the Bonus Issue).
- The Medical Device segment sold approximately a total of 880 sets of ABRS Machines and Portable ABRS Machines and 38,000 units of Disposable Chambers for the six months ended 30 September 2004.
- The Cord Blood Bank segment recorded an operating profit of HK\$1,997,000 for the six months ended 30 September 2004.
- The Tumour Treatment division continued to perform superbly for the period under review and contributed HK\$10,964,000 pre-tax profit to the Group.
- The Directors do not recommend an interim dividend for the six months ended 30 September 2004.

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 2004 as follows:

CONSOLIDATED INCOME STATEMENT

		Unaudited For the three months ended 30 September		Unaudited For the six months ended 30 September	
	Note	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	63,216	48,142	119,680	72,829
Cost of sales		(17,086)	(13,954)	(32,611)	(21,820)
Gross profit		46,130	34,188	87,069	51,009
Other revenue	4	4,399	3,832	8,355	5,770
Selling expenses		(1,724)	(1,416)	(3,980)	(2,087)
Administrative expenses		(10,675)	(6,681)	(20,085)	(13,187)
Profit from operations		38,130	29,923	71,359	41,505
Finance costs	5(a)	(1,129)	(37)	(1,827)	(37)
Share of profit from an associate		7,511	5,332	10,964	5,442
Profit before taxation	5	44,512	35,218	80,496	46,910
Taxation	6	(3,850)	(296)	(6,592)	(296)
Profit after taxation		40,662	34,922	73,904	46,614
Minority interests		(44)	(65)	(488)	(65)
Profit attributable to shareholders		40,618	34,857	73,416	46,549
Earnings per share					
- Basic (restated)	8	3.41 cents	3.55 cents*	6.17 cents	4.77 cents*
- Diluted (restated)	8	3.29 cents	3.50 cents*	6.03 cents	4.72 cents*

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

The notes on pages 7 to 21 form part of this interim report.

CONSOLIDATED BALANCE SHEET

		Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
Non-current assets	<i>Note</i>		
Fixed assets	9	134,248	136,405
Construction in progress	9	161,058	159,466
Interest in an associate		51,062	53,237
Intangible asset	10	28,371	—
Goodwill	11	513,862	70,869
		<u>888,601</u>	<u>419,977</u>
Current assets			
Inventories	12	79,948	79,178
Trade receivables	13	127,295	93,889
Other receivables, deposits and prepayments		45,174	53,331
Short-term investment		567	—
Cash and bank balances	14	157,250	195,295
		<u>410,234</u>	<u>421,693</u>
Current liabilities			
Trade payables	15	35,456	43,828
Other payables and accruals	16	115,496	13,449
Bank loans	17	67,755	28,371
Current taxation		3,070	2,232
Dividend payable		21,469	—
		<u>243,246</u>	<u>87,880</u>
Net current assets		<u>166,988</u>	<u>333,813</u>
Total assets less current liabilities		<u>1,055,589</u>	<u>753,790</u>
Non-current liabilities			
Deferred income		4,716	2,001
Convertible bond	18	226,400	—
		<u>231,116</u>	<u>2,001</u>
Minority interests		<u>56,772</u>	<u>44,297</u>
Net assets		<u>767,701</u>	<u>707,492</u>
Capital and reserves:			
Share capital	19	119,274	58,919
Reserves	20	648,427	648,573
		<u>767,701</u>	<u>707,492</u>

The notes on pages 7 to 21 form part of this interim report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited
For the six months
ended 30 September

	Note	2004 HK\$'000	2004 HK\$'000	2003 HK\$'000	2003 HK\$'000
Total equity as at 1 April			707,492		389,065
Exchange differences on translation of the financial statements of entities outside Hong Kong	20		—		(27)
Profit for the period	20		73,416		46,549
Dividend declared/paid during the period	20		(21,469)		(14,550)
Movement in share capital					
- Shares issued	19	718		4,000	
- Share premium arising from issue of shares	20	7,544		64,040	
			<u>8,262</u>		<u>68,040</u>
Total equity as at 30 September			<u><u>767,701</u></u>		<u><u>489,077</u></u>

The notes on pages 7 to 21 form part of this interim report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Unaudited
For the six months
ended 30 September

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow from operating activities	52,616	33,004
Net cash outflow from investing activities	(138,308)	(11,715)
Net cash (outflow)/inflow before financing	(85,692)	21,289
Net cash inflow/(outflow) from financing	47,647	(14,587)
Net (decrease)/increase in cash and cash equivalents	(38,045)	6,702
Cash and cash equivalents as at 1 April	156,939	121,993
Cash and cash equivalents as at 30 September	118,894	128,695
Analysis of the Balances of Cash and Cash equivalents		
Cash and bank balances	157,250	166,917
Short-term deposit maturing beyond 3 months	(38,356)	(38,222)
	118,894	128,695

The notes on pages 7 to 21 form part of this interim report.

NOTES TO THE INTERIM REPORT

1. Basis of preparation and accounting policies

The interim report has been prepared in accordance with the Statement of Standard Accounting Practice Number 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The condensed financial statements have been prepared under the historical cost convention.

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

2. Turnover

The Group is principally engaged in the manufacture and sale of autologous 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 for haematopoietic stem cells extracted from the umbilical cords of newborn babies (“Cord Blood Bank”).

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

Turnover recognised during the period may be analysed as follows:

	Unaudited		Unaudited	
	For the three months ended 30 September		For the six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Sales of ABRS Machines and Portable ABRS Machines	51,041	40,554	96,317	59,957
Sales of Disposable Chambers Relating to Cord Blood Bank services	9,138	7,081	16,799	12,365
	3,037	507	6,564	507
	<u>63,216</u>	<u>48,142</u>	<u>119,680</u>	<u>72,829</u>

3. Segment information

(i) *Primary reporting format - business segments*

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

Medical Device segment - the development, manufacture and sale of medical devices;

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

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

3. Segment information (continued)

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

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

	For the six months ended			
	30 September 2004			
	<i>HK\$'000</i>			
	Medical Device Segment	Cord Blood Bank Segment	Chinese Herbal Medicine Segment	Consolidated
Turnover	113,116	6,564	—	119,680
Segment results	81,074	1,997	(164)	82,907
Unallocated costs				(11,548)
Profit from operations				71,359
Finance costs				(1,827)
Share of profit from an associate				10,964
Profit before taxation				80,496
Taxation				(6,592)
Profit after taxation				73,904
Minority interests				(488)
Profit attributable to shareholders				73,416

3. Segment information (continued)

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

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

(ii) Secondary reporting format - geographical segments

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

4. Other revenue

	Unaudited For the three months ended 30 September		Unaudited For the six months ended 30 September	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Bank interest income	196	400	424	825
Government subsidies (<i>Note</i>)	4,203	3,432	7,931	4,945
	<u>4,399</u>	<u>3,832</u>	<u>8,355</u>	<u>5,770</u>

Note:

Pursuant to the relevant PRC 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:

	Unaudited For the three months ended 30 September		Unaudited For the six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
(a) Finance costs:				
- in respect of bank loans repayable within five years	974	37	1,672	37
- in respect of convertible bond	155	—	155	—
(b) Staff costs:				
Salaries, wages and other benefits	2,706	1,620	5,336	3,475
Contributions to defined contribution plans	221	188	350	384
(c) Other items:				
Cost of inventories	17,086	13,954	32,611	21,820
Amortisation of goodwill	2,786	173	3,711	196
Depreciation	2,853	2,427	5,593	4,772
Operating lease charges				
- in respect of properties	1,002	667	1,831	1,287
- in respect of other assets	83	66	164	133
Research and development costs (<i>Note</i>)	544	565	1,301	1,263

Note:

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

6. 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Current tax - Outside Hong Kong				
PRC income tax for the period	3,069	—	5,570	—
Share of associate's taxation	781	296	1,022	296
	<u>3,850</u>	<u>296</u>	<u>6,592</u>	<u>296</u>

(i) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax has been made for the six months ended 30 September 2004 (2003: Nil) as the Group did not have assessable profits subject to Hong Kong Profits Tax during the period.

(ii) PRC income tax

The Group's subsidiaries in the PRC are subject to different income tax rates in accordance with relevant rules and regulations applicable to the businesses and geographical location of those subsidiaries. Income tax rates of 15% and 33% are applicable for the Group's subsidiaries in the PRC.

The PRC income tax is provided in accordance with the assessable profits of the Group's PRC subsidiaries, to their respective applicable tax rates and preferential income tax treatment entitled thereto.

(iii) Deferred taxation

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

7. Dividend

	Unaudited For the three months ended 30 September		Unaudited For the six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Dividend attributable to the previous financial year				
Final dividend declared/paid during the period, of HK1.8 cents per share * (2003: HK1.5 cents per share*)	21,469	14,550	21,469	14,550

* As adjusted for the Bonus Issue.

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2004 (2003: Nil).

8. 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 2004 is based on the unaudited consolidated profit attributable to shareholders of HK\$40,618,000 and HK\$73,416,000 respectively divided by the weighted average number of 1,192,740,000 and 1,190,541,311 shares respectively in issue during the periods.

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 983,043,478 (restated) and 976,557,378 (restated) shares respectively in issue during the periods. The weighted average numbers of shares are restated to reflect the Bonus Issue as if it were effected during the periods.

8. Earnings per share (continued)

(ii) Diluted earnings per share

The calculation of diluted earnings per share for the three months and six months ended 30 September 2004 is based on the unaudited adjusted profit attributable to shareholders of HK\$40,773,000 and HK\$73,571,000 respectively, which are the profit attributable to shareholders for the periods adjusted for the accrued interest expense related to the convertible bond of HK\$155,000 and HK\$155,000 respectively, divided by the weighted average number of 1,237,472,279 and 1,220,754,520 shares respectively in issue during the periods after adjusting for the effects of all dilutive potential shares.

The calculation of diluted earnings per share for the three months and 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 996,317,162 (restated) and 985,570,652 (restated) shares respectively in issue during the periods after adjusting for the effects of all dilutive potential shares. The weighted average numbers of shares are restated to reflect the Bonus Issue as if it were effected during the periods.

9. Fixed assets and construction in progress

The changes in fixed assets and construction in progress for the six months ended 30 September 2004 are analysed as follows:

	Unaudited	
	Fixed assets	Construction in progress
	HK\$'000	HK\$'000
As at 1 April 2004	136,405	159,466
On acquisition of a subsidiary	2,412	—
Additions	1,024	1,592
Depreciation charge for the period	(5,593)	—
	<hr/>	<hr/>
As at 30 September 2004	134,248	161,058
	<hr/> <hr/>	<hr/> <hr/>

10. Intangible asset

The amount represented the patent acquired in connection with the acquisition of a 51% equity interest in Beijing Qi Jie Yuan Medicine Technology Development Limited ("Qi Jie Yuan").

11. Goodwill

The changes in goodwill for the six months ended 30 September 2004 are analysed as follows:

	Unaudited HK\$'000
As at 1 April 2004	70,869
On acquisition of a subsidiary	446,704
Amortisation for the period	(3,711)
	<hr/>
As at 30 September 2004	<u>513,862</u>

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

12. Inventories

	Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
Raw materials	706	1,108
Work in progress	1,355	991
Finished goods	77,887	77,079
	<hr/>	<hr/>
	79,948	79,178
	<hr/> <hr/>	<hr/> <hr/>

Included in finished goods are the cost value related to haematopoietic stem cells at the public storage banks in the amount of HK\$72,896,000 (31 March 2004: HK\$73,043,000).

All of the inventories are stated at cost.

13. 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 2004 HK\$'000	Audited 31 March 2004 HK\$'000
Within 6 months	120,515	70,142
Between 7 to 12 months	3,232	16,656
Over 1 year	3,548	7,091
	<u>127,295</u>	<u>93,889</u>

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

14. Cash and bank balances

Included in cash and bank balances is a short-term deposit of the amount of HK\$38,356,000 (31 March 2004: HK\$38,356,000) which matures beyond 3 months.

15. 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 2004 HK\$'000	Audited 31 March 2004 HK\$'000
Due within 3 months or on demand	35,456	43,828

16. Other payables and accruals

Included in other payables and accruals is the outstanding consideration of HK\$90,400,000 in connection with the Group's acquisition of a 51% equity interest in Qi Jie Yuan. The amount is repayable within one year after 6 September 2004, the date of completion of the acquisition.

17. Bank loans

	Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
Secured bank loan	28,371	28,371
Unsecured bank loan	39,384	—
	<hr/>	<hr/>
	67,755	28,371
	<hr/> <hr/>	<hr/> <hr/>

The secured bank loan bears interest rate at 5.31% per annum and is repayable on 21 May 2005. It is secured on a building owned by a minority shareholder of a subsidiary.

The unsecured bank loan bears interest rate at 2.55% per annum and is repayable on 15 November 2004.

18. Convertible bond

The Company issued, upon the completion of the acquisition of Qi Jie Yuan on 6 September 2004, a convertible bond in the principal amount of HK\$226,400,000 to Gold Baxter International Ltd. ("Gold Baxter"), the sole shareholder of the transferor.

The convertible bond bears interest at the rate of 1% per annum and will mature in three years subsequent to its date of issue. The outstanding principal amount of the bond may be converted into ordinary shares of the Company at an initial conversion price of HK\$3.8 per share, subject to adjustment, at any time and from time to time after three months subsequent to its date of issue. As a result of the Bonus Issue, the conversion price has been adjusted to HK\$1.9 per share with effect from 24 September 2004, as approved by the Board and certified by the Company's auditors in accordance with the terms of the convertible bond.

The conversion shares will rank pari passu in all respects with the Company's existing shares in issue at the date of conversion.

19. Share capital

	Unaudited 30 September 2004		Audited 31 March 2004	
	No. of shares '000	HK\$'000	No. of shares '000	HK\$'000
Authorised: Ordinary shares of HK\$0.10 each (Note i)	2,000,000	200,000	1,000,000	100,000
Issued and fully paid:				
Beginning of period/year	589,185	58,919	485,000	48,500
Shares issued under Share Option Scheme	7,185	718	7,185	719
Issuance of shares for the acquisition of a subsidiary	—	—	40,000	4,000
Issuance of shares for cash	—	—	57,000	5,700
Shares issuable pursuant to the Bonus Issue (Note ii)	596,370	59,637	—	—
End of period/year	1,192,740	119,274	589,185	58,919

Notes:

- (i) By an ordinary resolution passed at the AGM, the Company's authorised share capital was increased to HK\$200,000,000 by the creation of an additional 1,000,000,000 shares of HK\$0.10 each.
- (ii) Pursuant to the Bonus Issue approved by an ordinary resolution at the AGM, 596,370,000 Bonus Shares were allotted and issued on 8 November 2004 to shareholders who are entitled thereto. The Bonus Shares were credited as fully paid by way of capitalization of the share premium account.

All shares issued during the period rank pari passu in all respects with the then existing shares of the Company.

20. Reserves

	Unaudited					Total HK\$'000
	Share premium	Merger reserve	Exchange reserve	Surplus reserve	Retained profits	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
As at 1 April 2004	376,406	54,193	727	17,322	199,925	648,573
Issuance of shares	7,544	—	—	—	—	7,544
Capitalisation as Bonus Issue	(59,637)	—	—	—	—	(59,637)
Profit for the period	—	—	—	—	73,416	73,416
Dividend (Note 7)	—	—	—	—	(21,469)	(21,469)
As at 30 September 2004	<u>324,313</u>	<u>54,193</u>	<u>727</u>	<u>17,322</u>	<u>251,872</u>	<u>648,427</u>
As at 1 April 2003	162,521	54,193	21	7,307	116,523	340,565
Exchange differences	—	—	(27)	—	—	(27)
Issuance of shares	64,040	—	—	—	—	64,040
Profit for the period	—	—	—	—	46,549	46,549
Dividend (Note 7)	—	—	—	—	(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>

21. Acquisition

On 6 September 2004, the Group completed its acquisition of a 51% equity interest in Qi Jie Yuan which is specialising in the research and development of proprietary Chinese herbal medicines in the PRC.

The total consideration for the acquisition amounted to HK\$452,800,000, which has been satisfied by the Group half in cash and half by issuance of a 3-year 1% convertible bond with a conversion price of HK\$1.90 per share (after adjusted for the Bonus Issue) by the Company to Gold Baxter.

Out of the cash consideration, HK\$136,000,000 was paid by the Company on or before the completion date, and the balance of HK\$90,400,000 will be payable within one year after the date of completion.

The resulting goodwill of HK\$446,704,000 is amortised on a straight-line basis over 20 years.

22. Commitments

(i) Capital commitments

As at 30 September 2004, capital commitments contracted in respect of the construction of new haematopoietic stem cells storage facilities but not provided for in the interim report were as follows:

	Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
Contracted for	<u>46,964</u>	<u>53,568</u>

(ii) Operating lease commitments

As at 30 September 2004, total future minimum lease payments under non-cancelable operating leases were payable as follows:

	Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
Within 1 year	1,804	2,036
After 1 year but within 5 years	<u>557</u>	<u>12</u>
	<u>2,361</u>	<u>2,048</u>

The Group leases a number of properties under operating leases. The leases typically run for a period of one to three years, with an option to renew the leases on terms which are re-negotiable. None of the leases includes contingent rentals.

23. Related party transaction

A minority shareholder of a subsidiary of the Group provided a security for a bank loan of the subsidiary as disclosed in note 17.

FINANCIAL REVIEW

Turnover

For the six months ended 30 September 2004, the Group achieved a turnover of HK\$119,680,000, representing an increase of 64% as compared with the corresponding period in 2003.

Of the total turnover for the six months ended 30 September 2004, HK\$6,564,000 or 5% was service income derived from the Cord Blood Bank business which was acquired in September 2003, and HK\$113,116,000 or 95% was revenue from the Medical Device business. In contrast, service income from the Cord Blood Bank business accounted for only HK\$507,000 or 0.7% of the total turnover for the same period of 2003, and the rest was derived from the Medical Device business.

Apart from the growth of the Cord Blood Bank business, turnover of the Medical Device business continued to increase, and such increase was mainly attributable to the strong market demand for the Group's medical products.

Gross profit margin

The Group's gross profit margin was 73% for the six months period under review, slightly up from 70% of the same period in 2003. The slight improvement in gross profit margin was mainly due to the economy of scale of the existing operations and effective controls on fixed costs. 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's profit attributable to shareholders rose to HK\$73,416,000 for the six months ended 30 September 2004, which was HK\$26,867,000 higher than the corresponding period in 2003.

The overall performance of the Group for the six months under review is in line with the management's expectation. Projected increases in earnings from both of the Medical Device business and the Cord Blood Bank business were achieved.

In addition, Beijing Yuande Bio-Medical Engineering Co., Ltd. ("Beijing Yuande"), the Group's associate, also contributed HK\$9,942,000 to the profit attributable to shareholders.

Selling and administrative expenses

The Group's selling and administrative expenses for the six months ended 30 September 2004 were HK\$24,065,000, an increase of 58% compared to the same period in 2003. The reasons for such increase were that additional promotion and administrative expenses were incurred in promoting the Cord Blood Bank business, increase in administrative expenses as a result of the expansion in production scale for the Medical Device segment, as well as increase in amortisation cost of the goodwill associated with recent acquisitions.

Liquidity and financial resources

The Group maintained a sound financial position during the period under review. For the six months ended 30 September 2004, the Group generated an operating cash inflow of HK\$52,616,000. This helps the Group to maintain a strong cash position despite the outlay of HK\$136,000,000 to fund the acquisition of Qi Jie Yuan. As at 30 September 2004, the Group's cash and bank balances were HK\$157,250,000 (31 March 2004: HK\$195,295,000). Total interest-bearing liabilities stood at HK\$294,155,000 (31 March 2004: HK\$28,371,000), comprising bank borrowings of HK\$67,755,000 and the newly issued 3-year convertible bond.

The Group's total current assets and net assets as at 30 September 2004 were HK\$410,234,000 and HK\$767,701,000 respectively (31 March 2004: HK\$421,693,000 and HK\$707,492,000 respectively).

Gearing ratio

As at 30 September 2004, the gearing ratio was 5% if calculated as a percentage of total interest-bearing liabilities (excluding the convertible bond) over total assets (31 March 2004: 3%), and was 23% if calculated as a percentage of total interest-bearing liabilities (including the convertible bond) over total assets (31 March 2004: 3%).

Capital structure

On 6 September 2004, the Company issued a convertible bond in the principal amount of HK\$226,400,000 to Gold Baxter as part of the consideration for the acquisition of Qi Jie Yuan. The convertible bond bears interest at the rate of 1% per annum and will mature in three years subsequent to its date of issue. The outstanding principal amount of the convertible bond may be converted into ordinary shares of the Company at an initial conversion price of HK\$3.8 per share, subject to adjustment, at any time and from time to time after three months subsequent to its date of issue. As a result of the Bonus Issue, the conversion price has been adjusted to HK\$1.9 per share, with effect from 24 September 2004.

The Company also allotted and issued an additional 7,185,000 shares under the Share Option Scheme during the period.

Charges on group assets

As at 30 September 2004, the Group had no charged assets (31 March 2004: Nil).

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 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 liquidity position to ensure that the liquidity structure of the Group meets its funding requirements.

Contingent liabilities

As at 30 September 2004, the Group had no material contingent liabilities.

Employee information

As at 30 September 2004, the Group had 275 full-time employees in Hong Kong and the PRC. For the six months ended 30 September 2004, the total staff costs, including Directors' emoluments and mandatory provident funds contributions, amounted to HK\$5,336,000.

Remuneration is determined in accordance with government policies and by reference to market conditions and the performance, qualifications and experience of individual employees. The Group has always recognised that talent is vital to the Group's future growth and development. Discretionary bonuses and shares options are granted to employees with outstanding performance as recognition of their contributions to the Group.

Use of proceeds

As stated in the circular of the Company dated 30 July 2004, an amount of approximately HK\$118,000,000 raised in the placing conducted in January 2004 was used to finance the Group's acquisition of a 51% equity interest in Qi Jie Yuan.

The remaining proceeds raised from the placing conducted in January 2004 will be used for the purpose as disclosed in the circular of the Company dated 30 January 2004. Those proceeds not yet used are deposited with the banks either in Hong Kong or the PRC to earn interest income for the Group.

BUSINESS REVIEW

Overall review

This period marks another milestone in the Group's history. In September 2004, the Group successfully completed the acquisition of Qi Jie Yuan which brought the Group a step closer to achieving its mission, i.e. to become a highly recognised hi-tech integrated medical enterprise worldwide.

The Group's existing businesses now consist of key aspects as follows: the development, manufacture and sale of medical devices, the provision of haematopoietic stem cells storage facilities and accessories services, the research and development of Chinese herbal medicine to treat HIV infection and the tumour treatment business.

The management believes that growth potential in the medical sector will continue despite the slowdown in the overall PRC economy. It is anticipated that the medical sector will remain relatively unaffected by recent government measures to curb excessive investments in certain industries. The continued improvement in the living and education standards of the general public in the PRC will continue to fuel the demand for the services provided by the Group.

Medical Device segment

For the six months ended 30 September 2004, the Medical Device segment reported a turnover of HK\$113,116,000, which represents 95% of the total turnover and a 56% increase as compared to the corresponding period last year.

During the six months under review, the Group sold approximately a total of 880 sets (2003: 550 sets) of ABRS Machines and Portable ABRS Machines and 38,000 units (2003: 28,000 units) of Disposable Chambers.

In addition to the ABRS being selected by the Ministry of Health (the “MOH”) in early January 2003 for promotion of nationwide adoption of ABRS in hospitals, our Portable ABRS also gained an endorsement as a “focused new product for nationwide promotion” from five government ministries including the Ministry of Science and Technology and the MOH in July 2004. With the recognition from the government, management believes that our autologous blood recovery products would penetrate the PRC market even more rapidly.

The Portable ABRS is designed with features suitable for applications at outdoor, remote regions and emergency situations. With the endorsement from the government ministries, the Group is hoping to target the Portable ABRS to other regions and markets currently not covered by the ABRS machines.

With respect to product development, the Group will continue to devote resources to research and development on blood-related technologies and treatments which form the basis of its long-term development. Further progress has also been made on projects in the pipeline, with some presently under clinical trials. We are hoping that these new products will receive the approval of the State Food and Drug Administration Bureau of the PRC (the “SFDA”) in the next few years, so that they become additional driving forces for the Group’s future growth.

Cord Blood Bank segment

The Cord Blood Bank segment performed satisfactorily for the six months ended 30 September 2004, and reported a turnover of HK\$6,564,000, which represents 5% of total turnover and a 1,195% increase as compared to the corresponding period last year.

The Cord Blood Bank segment provides haematopoietic stem cells storage facilities and accessory services, that is the storage of haematopoietic stem cells from the umbilical cords of newborn babies, and the use of haematopoietic stem cells in many medical treatment procedures against life-threatening diseases such as leukemia, myocardial defect, immuno-deficiency, aplastic anaemia and thalassaemia.

As at 30 September 2004, the Cord Blood Bank segment has one cord blood bank operating in Beijing and has established another four cord blood banks in several other affluent regions in the PRC. These four newly constructed cord blood banks are expected to be in operation by the end of this financial year. With the aim to increasing the market coverage, the Group plans to build six more cord blood banks within the next year.

Management expects to see an increasing take-up rate in our Cord Blood Bank services where the public awareness of the usefulness of haematopoietic stem cells storage rises every day.

Chinese Herbal Medicine segment

On 6 September 2004, the Group successfully completed the acquisition of a 51% equity interest in Qi Jie Yuan.

Qi Jie Yuan is specialising in the research and development of Chinese herbal medicines in the PRC. Qi Jie Yuan has successfully developed Tang Cao Pian which is a Chinese herbal medicine to treat AIDS and HIV infection. Tang Cao Piao can effectively boost up the CD4 cells level and hence enhance the immune systems of human beings. The medicine can alleviate the symptoms of AIDS patients and defer the onset time of the HIV carriers.

Tang Cao Pian has successfully gone through the animal tests and the clinical trials on hundreds of AIDS patients and HIV carriers, and was granted the Certificate for New Medicine by the SFDA in April 2004, being currently the first and only Chinese herbal medicine to treat AIDS and HIV infection.

In order to fulfill the market demand from the general public soon, the Group plans to start the production and sale of Tang Cao Pian in early 2005. The Group has already identified an entity suitable for the production of Tang Cao Pian and is currently in negotiation with its owner over the relevant licences. Further information regarding the production will be announced by the Company in due course.

Tumour Treatment division

The Group, in partnership with the Medical Systems of the General Electric Company, USA, invested in Beijing Yuande which is engaged in the development, manufacture and sale of high intensity focused ultrasonic ("HIFU") medical devices for the treatment of certain types of tumours.

HIFU is at the forefront of modern technology, utilising high energy ultrasonic pulses that focus on and destroy the tumour cells instantly. This is a non-invasive and painless treatment procedure and can replace traditional tumour removal surgeries with the benefit of not causing any pain and visible wounds.

For the six months ended 30 September 2004, the Tumour Treatment division has delivered an outstanding performance and contributed to the Group a pre-tax profit of HK\$10,964,000.

MAJOR INVESTMENTS

(1) Joint venture on medical device distribution

On 27 September 2004, the establishment of the joint venture under the name of Union China National Medical Equipment Company Limited (“Union China National”) by the Company with, inter alia, China National Medical Equipment Industry Corporation (“CMIC”) was completed. CMIC is the largest state-owned medical equipment distributor in the PRC. Union China National has been granted the Certificate of Approval for Establishment of Foreign Enterprises in the PRC and Business Licence by the Ministry of Commerce and State Administration for Industry and Commerce respectively and is the first sino-foreign joint venture approved by the government for the sale and distribution of medical devices in the PRC.

Union China National will take over CMIC’S entire distribution operation. It will engage in marketing and acting as agent of medical devices, as well as providing consultancy services relating to medical devices in the PRC.

(2) Acquisition of Chinese herbal medicine to treat HIV infection

On 9 June 2004, the Group entered into an agreement to acquire a 51% equity interest in Qi Jie Yuan for an aggregate consideration of HK\$452,800,000. The acquisition was completed on 6 September 2004. Half of the consideration was settled by the Company issuing a convertible bond in the principal amount of HK\$226,400,000 to Gold Baxter and the rest in cash. Out of the cash payment, HK\$136,000,000 was paid on or before the completion date and the balance of HK\$90,400,000 will be payable within one year after the date of completion. Details of the convertible bond are stated in note 18 to the interim report. Qi Jie Yuan became a 51% indirect owned subsidiary of the Company upon completion of the acquisition on 6 September 2004. Accordingly, its financial statements have been incorporated into the Group’s consolidated financial statements since 7 September 2004.

PROSPECTS

The Group will continue to pursue its strategic goal of becoming an international leading hi-tech integrated medical enterprise. While focusing on achieving remarkable results from our existing businesses, the Group will grasp suitable business opportunities which are in line with the Group's strategies to broaden its range of products and to promote new products and services to the general public.

Continuous improvement in the living and education standards of the general public in the PRC fuels the demand for high quality medical services, in particular, our Cord Blood Bank segment which provides storage of haematopoietic stem cells at a very affordable price. We believe that once our additional cord blood banks are in operation in the near future, the growth for haematopoietic stem cells storage services will increase sharply and such result will be reflected in our financials statements.

The increasing population of HIV carriers and AIDS patients poses a health crisis in the PRC. This health crisis, together with the government policy introduced this year to control the spread of AIDS in the PRC, has led the Group to speed up the completion of its acquisition of Qi Jie Yuan. Tang Cao Pian, a Chinese herbal medicine developed by Qi Jie Yuan to combat AIDS, is expected to become one of the effective AIDS treatments.

In short, the Group will continue its mission of achieving the greatest benefits for all stakeholders, as well as improving people's quality of life and their well-being.

DISCLOSURE OF INTERESTS OF DIRECTORS

As at 30 September 2004, the interests or short positions of the Directors and senior management of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.66 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long position in shares

Name of Director	Capacity	Number of shares				Total interest (Note i)	Approximate % of the Company's issued share capital (Note ii)
		Personal interest	Family interest	Corporate interest (Note i)			
Mr. Kam Yuen (Note iii)	Interest of controlled corporation	—	—	418,320,000	418,320,000	35.07	

Notes:

- i. The number of shares in which the Director was interested includes the Bonus Shares allotted and issued on 8 November 2004 pursuant to the Bonus Issue approved at the AGM on 23 September 2004.
- ii. Calculated as a percentage of an enlarged issued share capital of 1,192,740,000 shares upon the completion of the Bonus Issue.
- iii. Mr. Kam Yuen is the sole beneficial shareholder of the entire issued share capital of Bio Garden Inc. which was interested in 418,320,000 shares as at 30 September 2004.

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

Pursuant to the share option scheme adopted by the Company on 30 July 2002 (the “Share Option Scheme”), certain Directors were granted share options on 31 March 2003 to subscribe for the shares at HK\$1.15 per share.

Details of the share options granted to the Directors as at 30 September 2004 were stated as follows:

Name of Director	Exercise period	<u>Number of underlying shares in respect of which options granted</u>				
		As at 1 April 2004	Exercised	Adjustment due to Bonus Issue (Note i)	As at 30 September 2004	Adjusted exercise price (Note i)
Mr. Lu Tian Long (Note ii)	1 April 2003 to 16 March 2013	2,800,000	1,200,000	1,600,000	3,200,000	HK\$0.575
Ms. Zheng Ting (Note ii)	1 April 2003 to 16 March 2013	1,400,000	600,000	800,000	1,600,000	HK\$0.575

Notes:

- i. Pursuant to the terms of the Share Option Scheme, the number of underlying shares in respect of options granted has been adjusted in consequence of the Bonus Issue with effect from 24 September 2004. The exercise price has also been adjusted from HK\$1.15 per share to HK\$0.575 per share.
- ii. On 28 April 2004, Mr. Lu Tian Long and Ms. Zheng Ting exercised options to subscribe for 1,200,000 and 600,000 shares respectively. The weighted average closing price of the shares on 27 April 2004 was HK\$1.607 per share.

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

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

During the six months ended 30 September 2004, none of the Directors was granted options to subscribe for the shares.

Save as disclosed above, as at 30 September 2004, none of the Directors, senior management of the Company and their associates had any personal, family, corporate or other interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.66 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

In order to align the interests of staff with those of shareholders, share options are awarded to management and full-time employees (including Directors of the Group) to subscribe for the shares under Share Option Scheme. The principal terms of the Share Option Scheme are set out in note 25 to the financial statements as included in the annual report of the Company for the year ended 31 March 2004.

No share options were granted or cancelled during the period under review. Details of the share options granted to two Executive Directors are set out above under the paragraph headed “(ii) Long positions in underlying shares” under the section headed “Disclosure of Interests of Directors”, and details of the share options granted to other executives and full time employees as at 30 September 2004 were as follows:

Number of employees	<u>Number of underlying shares in respect of which options granted</u>			As at 30 September 2004	Date of grant	Exercise period	Adjusted exercise price
	As at 1 April 2004	Exercised	Adjustment due to Bonus Issue				
10	12,865,000	5,385,000 <i>(Note i)</i>	7,480,000 <i>(Note ii)</i>	14,960,000	31 March 2003	1 April 2003 to 16 March 2013	HK\$0.575 <i>(Note ii)</i>

Notes:

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

DIRECTORS' RIGHT TO ACQUIRE SHARES

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

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

As at 30 September 2004, 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 (long position)

Name of substantial shareholder	Capacity	Number of shares (Note i)	Approximate % of the Company's issued share capital (Note ii)
Bio Garden Inc. (Note iii)	Beneficial owner	418,320,000	35.07

Notes:

- i. The number of shares held by the substantial shareholder includes the Bonus Shares allotted and issued on 8 November 2004 pursuant to the Bonus Issue approved at the AGM on 23 September 2004.
- ii. Calculated as a percentage of an enlarged issued share capital of 1,192,740,000 shares upon the completion of the Bonus Issue.
- iii. 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 2004.

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

Name of other persons who have more than 5% interest	Capacity	Number of shares/ underlying shares	Approximate % of the Company's issued share capital (Note iii)
Martin Currie Investment Management Limited	Investment manager	73,504,000 (Note i)	6.16
Nordea 1 SICAV - Far Eastern Value Fund	Beneficial owner	69,328,000 (Note i)	5.81
The Capital Group Companies, Inc.	Investment manager	66,994,000 (Note i)	5.62
Gold Baxter	Beneficial owner	119,157,894 (Note ii)	9.99
Chen Xiao Xuan ("Mr. Chen")	Interest of controlled corporation	119,157,894 (Note ii)	9.99
Zhong Xiao Hui ("Ms. Zhong")	Interest of controlled corporation	119,157,894 (Note ii)	9.99

Notes:

- i. The number of shares held by the above parties includes the Bonus Shares allotted and issued on 8 November 2004 pursuant to the Bonus Issue approved at the AGM on 23 September 2004.
- ii. The number of underlying shares in respect of the convertible bond issued to Gold Baxter has been adjusted following an adjustment made to the conversion price as stated in note 18 to the interim report. The underlying shares in which Gold Baxter is known as being interested are included in and duplicate with the interest in the underlying shares held by Mr. Chen and Ms. Zhong. Mr. Chen and Ms. Zhong each beneficially owns 50% of the equity interest of Gold Baxter. As such, each of Mr. Chen and Ms. Zhong is deemed under the SFO to have an interest in the underlying shares held by Gold Baxter.
- iii. Calculated as a percentage of an enlarged issued share capital of 1,192,740,000 shares upon the completion of the Bonus Issue.

Save as disclosed above, as at 30 September 2004, the Directors are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures during the six months ended 30 September 2004.

CORPORATE GOVERNANCE

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

COMPETING INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or any of 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 with the Group.

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

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

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors of the Company, namely Mr. Cao Gang (chairman of the audit committee), Mr. Gao Zong Ze and Mr. Gu Qiao.

The audit committee, together with the management team of the Company, has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the Directors, including a review of the interim report for the six months ended 30 September 2004.

By order of the Board
KAM YUEN
CHAIRMAN

HONG KONG, 12 November 2004