

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared under the historical cost convention, as modified by the revaluation of investment properties, and in accordance with Hong Kong Financial Reporting Standards.

In 2003, the Group adopted the revised Statement of Standard Accounting Practice No. 12 “Income taxes” issued by the Hong Kong Society of Accountants. As a result, the Group has changed its accounting policies for deferred taxation as detailed in note (h) below. The change in accounting policies has been applied retrospectively and accordingly, reserves of the Group as at 31st December 2002 have been reduced by HK\$7,497,000.

Following the adoption and implementation of the revised accounting standards, certain comparative figures have been restated to conform with the current year presentation.

The principal accounting policies adopted in the preparation of these accounts are set out below.

(a) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiary companies made up to 31st December. Subsidiary companies are those entities in which the Group has the power to exercise control governing the financial and operating policies of the company.

The results of subsidiary companies acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

The profit or loss on the disposal of a subsidiary company is calculated as the difference between the net disposal proceeds and the Group’s share of its net assets at the date of disposal proceeds and the Group’s share of net assets at the date of disposal including the attributable amount of goodwill which remains unamortised or previously taken directly to reserves.

(b) Goodwill

Goodwill represents the difference between the costs of acquisition over the fair values ascribed to the Group’s share of the net assets of the acquired subsidiary companies at the effective date of acquisition. Goodwill on acquisitions is included in the balance sheet as a separate asset and amortised using the straight-line method over its estimated useful life of not more than twenty years. Where the fair values ascribed to the net assets exceed the purchase consideration, such differences are recognised in the profit and loss account as income in the year of acquisition or over the weighted average useful life of the acquired non-monetary assets.

The carrying amount of goodwill is reviewed annually and provision is only made when, in the opinion of the Directors, there is impairment in value other than temporary in nature.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management. Associated companies are accounted for under the equity method whereby the Group's share of results is included in the consolidated profit and loss account and the Group's share of net assets is included in the consolidated balance sheet.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and provision for significant permanent impairment in values.

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and are held for their investment potential, any rental income being negotiated at arm's length. Investment properties held on leases of more than twenty years are carried at open market value based on annual valuations by independent valuers at the balance sheet date. Deficits in valuation are charged to the profit and loss account; increases are first credited to the profit and loss account to the extent of valuation deficits previously charged on a portfolio basis and thereafter credited to the investment property valuation reserve. Upon the disposal of an investment property, and relevant revaluation surplus is transferred to the profit and loss account.

No depreciation is provided in respect of investment properties held on leases of more than twenty years. Depreciation of other assets is calculated to write off the cost of the assets over their estimated useful lives or if shorter, the relevant finance lease periods, using the straight-line method, at the following annual rates:

| | |
|-------------------------|--------------------------|
| Leasehold improvements | 15 to 33 $\frac{1}{3}$ % |
| Furniture and equipment | 20% |
| Motor vehicles | 20% |

Major costs incurred in restoring assets to their normal working conditions are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group. The carrying amounts of assets are reviewed regularly. Where the estimated recoverable amounts have declined permanently below their carrying amounts, the carrying amounts are written down to their estimated recoverable amounts. Expected future cash flows have been discounted in determining the recoverable amounts.

Interest and related costs on borrowings to finance the construction or acquisition of an asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Profits and losses on disposal, other than investment properties, are determined as the differences between the net disposal proceeds and the carrying amounts of the assets and are dealt with in the profit and loss account.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Investments

Investments intended to be held for an indefinite long term purposes are classified under non-current assets and are carried at cost less provision. Provision is made when, in the opinion of the Directors, there is impairment in value other than temporary in nature.

Investments intended to be held for the purpose of generating a profit from short-term fluctuation in prices are included under current assets and are carried at fair values. The net unrealised gains or losses arising from the changes in fair values of securities are recognised in the profit and loss account. Profits or losses on disposal, representing the differences between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(f) Inventories

Inventories, comprising mainly consumables, are stated at the lower of cost and net realisable value. Cost is calculated on the first-in, first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(h) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred taxation is provided on temporary differences arising on investments in subsidiaries, and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In previous years, deferred taxation was accounted for using the liability method at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. This accounting policy has been changed to conform with the revised accounting standard. As a result, reserves of the Group as at 31st December 2002 have been reduced by HK\$7,497,000.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Leased assets

Assets leased from third parties under agreements that transfer substantially all the risks and rewards incident to ownership of relevant assets to the Group are classified as finance leases. At the inception of a finance lease, the fair value of the asset or, if lower, the present value of the minimum lease payments, derived by discounting them at the interest rate implicit in the lease, is capitalised as a fixed asset; the corresponding obligations, net of finance charges, is included under long-term liabilities. Gross rental payable in respect of finance leases are apportioned between interest charges and a reduction of the lease obligations based on the interest rates implicit in the relevant leases. Assets held under finance leases are depreciated on the basis described in note (d) above.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessors are classified as operating leases. Rentals payable, net of incentives received from the lessors, under operating leases are charged to the profit and loss account on a straight-line basis over the lease periods.

(j) Employee benefits

Contributions under the defined contribution retirement scheme, which are calculated as a percentage of basic salaries of the employees, are charged to the profit and loss account in the year to which the contributions relate.

Employee entitlements to annual leave and long service leave are recognised when they accrued to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, amounts repayable on demand from banks and financial institutions within three months from the date of placement, less advances from banks and financial institutions repayable within three months from the date of advance.

(l) Revenues recognition

Processing and storage fees are recognised when services are rendered. Enrolment fees are recognised upon the signing of the enrolment contract. Sales of properties are recognised upon completion of the sale and purchase agreements. Rental income, net of incentives paid to lessees, under operating leases is recognised over the periods of the respective leases on a straight-line basis. Interest income is recognised on a time proportion basis. Dividend income is recognised when the right to receive payment is certain.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Translation of foreign currencies

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at rates of exchange ruling at that date. Exchange differences arising are dealt with in the profit and loss account.

Profit and loss accounts of subsidiary and associated companies expressed in foreign currencies are translated at the weighted average exchange rates for the year and balance sheets are translated at the exchange rates ruling at the balance sheet date. Exchange differences arising from the translation of net investments in foreign subsidiary companies are taken directly to reserves.

2 TURNOVER

| | 2003 | 2002 |
|--|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Processing, storage and enrolment fees | 9,287 | 8,051 |
| Rental and related income | 8,807 | 9,209 |
| Sales of investment properties | — | 19,200 |
| Dividend from listed investments | 1 | 3 |
| Unrealised gain of trading investments | 14 | — |
| | <u>18,109</u> | <u>36,463</u> |

3 OTHER REVENUES

| | 2003 | 2002 |
|---------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Bad debts recovered | 1,079 | 98 |
| Interest | 50 | 3 |
| Sundries | 87 | 99 |
| | <u>1,216</u> | <u>200</u> |

NOTES TO THE ACCOUNTS

4 SEGMENT INFORMATION

The Group is principally engaged in property investment, processing and storage of cord blood. In accordance with the Group's internal financial reporting and operating activities, the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories and receivables, and mainly exclude investments and bank balances. Segment liabilities comprise creditors and accruals. There are no sales or trading transactions between the business segments. In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

A summary of business segments is set out as follow:

| | Property investment | Bio- technology (cord blood) | Corporate and others | Total |
|--|--------------------------------|---|---------------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Year ended 31st December 2003 | | | | |
| Turnover | 8,807 | 9,287 | 15 | 18,109 |
| Segment results | 18,100 | (2,029) | (45,654) | (29,583) |
| Financial expenses | | | | (3,379) |
| Share of losses of associated companies | (1,051) | — | — | (1,051) |
| Loss before taxation | | | | (34,013) |
| Taxation charge | | | | (1,277) |
| Loss attributable to shareholders | | | | (35,290) |
| Segment assets | 237,506 | 24,980 | 184 | 262,670 |
| Unallocated assets | | | | 165,190 |
| Total assets | | | | 427,860 |
| Segment liabilities | 3,612 | 6,385 | 10 | 10,007 |
| Unallocated liabilities | | | | 87,428 |
| Total liabilities | | | | 97,435 |
| Capital expenditure | 549 | 519 | 1,602 | 2,670 |
| Depreciation | 73 | 1,948 | 767 | 2,788 |
| Amortisation of goodwill | — | 2,914 | — | 2,914 |

NOTES TO THE ACCOUNTS

4 SEGMENT INFORMATION (Continued)

| | Property investment | Bio- technology (cord blood) | Corporate and others | Total |
|--|--------------------------------|---|---------------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Year ended 31st December 2002 | | | | |
| Turnover | 28,409 | 8,051 | 3 | 36,463 |
| Segment results | (13,780) | (3,233) | (15,377) | (32,390) |
| Financial expenses | | | | (4,249) |
| Share of losses of associated companies | (195) | — | — | (195) |
| Loss before taxation | | | | (36,834) |
| Taxation credit | | | | 167 |
| Loss attributable to shareholders | | | | (36,667) |
| Segment assets | 220,321 | 29,055 | 170 | 249,546 |
| Unallocated assets | | | | 70,329 |
| Total assets | | | | 319,875 |
| Segment liabilities | 3,913 | 5,603 | 7 | 9,523 |
| Unallocated liabilities | | | | 36,704 |
| Total liabilities | | | | 46,227 |
| Capital expenditure | 2,100 | 277 | 940 | 3,317 |
| Depreciation | — | 1,927 | 786 | 2,713 |
| Amortisation of goodwill | — | 2,914 | — | 2,914 |

NOTES TO THE ACCOUNTS

4 SEGMENT INFORMATION (Continued)

A summary of the geographical segments is set out as follow:

| | Turnover <i>HK\$'000</i> | Operating (loss)/profit <i>HK\$'000</i> | Total assets <i>HK\$'000</i> | Capital Expenditure <i>HK\$'000</i> |
|-------------------------------|------------------------------------|---|--|---|
| Year ended 31st December 2003 | | | | |
| Hong Kong | 9,302 | (50,190) | 231,397 | 2,121 |
| Mainland China | 8,807 | 20,607 | 196,463 | 549 |
| | <u>18,109</u> | <u>(29,583)</u> | <u>427,860</u> | <u>2,670</u> |
| Year ended 31st December 2002 | | | | |
| Hong Kong | 27,594 | (32,805) | 140,553 | 1,217 |
| Mainland China | 8,869 | 415 | 179,322 | 2,100 |
| | <u>36,463</u> | <u>(32,390)</u> | <u>319,875</u> | <u>3,317</u> |

5 OPERATING LOSS

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---|--------------------------------|--------------------------------|
| Operating loss is stated after crediting: | | |
| Gross rental income | 8,807 | 9,209 |
| Less related outgoings | (3,366) | (3,806) |
| Unrealised gain of trading investments | <u>14</u> | <u>—</u> |
| and after charging: | | |
| Depreciation | | |
| Owned Assets | 2,358 | 2,422 |
| Leased Assets | 430 | 291 |
| Amortisation of goodwill | 2,914 | 2,914 |
| Staff cost (including Directors' remuneration) | 12,570 | 10,051 |
| Operating lease rental expense for land and buildings | 1,971 | 1,859 |
| Auditors' remuneration | 431 | 236 |
| Unrealised loss of trading investments | — | 77 |
| Provision for long-term investment | 10,000 | — |
| Loss on disposal of property, plant and equipment | <u>180</u> | <u>11,427</u> |

NOTES TO THE ACCOUNTS

6 FINANCIAL EXPENSES

| | 2003 | 2002 |
|---|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest on short-term loan | 2,161 | 3,839 |
| Interest on bank loans and overdrafts | 1,084 | 354 |
| Interest on convertible bonds | 95 | — |
| Interest on finance lease obligations wholly payable within five years | 39 | 56 |
| | <u>3,379</u> | <u>4,249</u> |

7 EMOLUMENTS OF DIRECTORS AND SENIOR EXECUTIVES

(a) Directors' emoluments

Details of the emoluments paid to the Directors of the Company are as follows:

| | 2003 | 2002 |
|-------------------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Fees | 969 | 1,050 |
| Salaries and other emoluments | 6,999 | 5,329 |
| Discretionary bonuses | 284 | — |
| Retirement benefits | 44 | 60 |
| | <u>8,296</u> | <u>6,439</u> |

The emoluments of the Directors of the Company fall within the following bands:

| Emoluments bands | Number of Directors | |
|--------------------------------|----------------------------|-------------|
| | 2003 | 2002 |
| Nil to HK\$1,000,000 | 11 | 6 |
| HK\$3,000,001 to HK\$3,500,000 | 1 | 1 |
| | <u>12</u> | <u>7</u> |

None of the Directors has waived the right to receive their emoluments. Fees paid to Independent Non-executive Directors during the year amounted to HK\$300,000 (2002: HK\$300,000).

NOTES TO THE ACCOUNTS

7 EMOLUMENTS OF DIRECTORS AND SENIOR EXECUTIVES (Continued)

(b) Senior executives' emoluments

Details of emoluments paid by the Group to the five individuals, who are also Directors and their emoluments were the highest in the Group, are as follows:

| | 2003 | 2002 |
|-------------------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Salaries and other emoluments | 6,740 | 6,079 |
| Discretionary bonuses | 284 | — |
| Retirement benefits | 35 | 60 |
| | 7,059 | 6,139 |
| | 7,059 | 6,139 |

The emoluments of the five individuals of the Group fall within the following bands:

| Emoluments bands | Number of individuals | |
|--------------------------------|------------------------------|-------------|
| | 2003 | 2002 |
| Nil to HK\$1,000,000 | 4 | 4 |
| HK\$3,000,001 to HK\$3,500,000 | 1 | 1 |
| | 5 | 5 |
| | 5 | 5 |

8 TAXATION (CHARGE)/CREDIT

| | 2003 | 2002 |
|--------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Overseas taxation | | |
| Current | (492) | 269 |
| Deferred (note 23) | (785) | (102) |
| | (1,277) | 167 |
| | (1,277) | 167 |

No provision for Hong Kong profits tax has been made as the Group does not have any assessable profits for the year (2002: nil). Provision has been made at the rates of taxation prevailing in Mainland China on the estimated assessable profit for the year.

NOTES TO THE ACCOUNTS

8 TAXATION (CHARGE)/CREDIT (Continued)

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average of rates prevailing in the territories in which the Group operates, as follows:

| | 2003 | 2002 |
|---|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Loss before taxation | (34,013) | (36,834) |
| Tax asset calculated at applicable tax rate | 7,975 | 5,966 |
| Income not subject to taxation | 1,110 | 32 |
| Expenses not deductible for taxation purposes | (8,150) | (5,408) |
| Temporary differences not recognised | (210) | 2,103 |
| Utilisation of previously unrecognised tax losses | 151 | — |
| Tax loss not recognized | (1,333) | (3,081) |
| Other items | (820) | 555 |
| Taxation (charge)/credit | (1,277) | 167 |

9 LOSS PER SHARE

The calculation of loss per share is based on the loss attributable to shareholders for the year of HK\$35,290,000 (2002: HK\$36,667,000) and on the weighted average of 1,640,633,346 shares (2002: 982,570,771 shares) in issue during the year.

Diluted loss per share is not presented as there are no dilutive potential shares for the options granted under the share option scheme of the Company.

NOTES TO THE ACCOUNTS

10 PROPERTY, PLANT AND EQUIPMENT

Group

| | Investment properties <i>HK\$'000</i> | Leasehold improvements <i>HK\$'000</i> | Furniture, equipment and motor vehicles <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--------------------------|---|--|---|--------------------------|
| Cost or valuation | | | | |
| At 31st December 2002 | 147,000 | 4,373 | 6,761 | 158,134 |
| Additions | — | 1,327 | 1,343 | 2,670 |
| Disposals | — | — | (393) | (393) |
| Revaluation | 15,400 | — | — | 15,400 |
| | <u>147,000</u> | <u>4,373</u> | <u>6,761</u> | <u>158,134</u> |
| At 31st December 2003 | 162,400 | 5,700 | 7,711 | 175,811 |
| | <u>162,400</u> | <u>5,700</u> | <u>7,711</u> | <u>175,811</u> |
| Accumulated depreciation | | | | |
| At 31st December 2002 | — | 2,916 | 2,390 | 5,306 |
| Charge for the year | — | 1,544 | 1,244 | 2,788 |
| Disposals | — | — | (213) | (213) |
| | <u>—</u> | <u>2,916</u> | <u>2,390</u> | <u>5,306</u> |
| At 31st December 2003 | — | 4,460 | 3,421 | 7,881 |
| | <u>—</u> | <u>4,460</u> | <u>3,421</u> | <u>7,881</u> |
| Net book value | | | | |
| At 31st December 2003 | 162,400 | 1,240 | 4,290 | 167,930 |
| | <u>162,400</u> | <u>1,240</u> | <u>4,290</u> | <u>167,930</u> |
| At 31st December 2002 | 147,000 | 1,457 | 4,371 | 152,828 |
| | <u>147,000</u> | <u>1,457</u> | <u>4,371</u> | <u>152,828</u> |

The investment properties, being Level 2 of GITIC Plaza, 339 Huanshi Road East, Guangzhou, Guangdong Province, are held under medium term lease in Mainland China and stated at professional valuation made by RHL Appraisal Limited, an independent valuer, on 31st December 2003 on an open market basis. All other assets are carried at cost.

The net book value of fixed assets pledged as security for the bank loan of the Group amounted to HK\$162,400,000 (2002: HK\$147,000,000) and those held under finance leases amounted to HK\$1,368,500 (2002: HK\$1,798,500).

NOTES TO THE ACCOUNTS

11 GOODWILL

| | 2003 | 2002 |
|--------------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Cost | 29,139 | 29,139 |
| Accumulated amortisation | (8,499) | (5,585) |
| Net book value | <u>20,640</u> | <u>23,554</u> |
| At beginning of year | 23,554 | 26,468 |
| Amortisation | (2,914) | (2,914) |
| At end of year | <u>20,640</u> | <u>23,554</u> |

12 SUBSIDIARY COMPANIES

| | 2003 | 2002 |
|---|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Unlisted shares, at cost less provision | 180,000 | 180,000 |
| Amounts receivable less provision | 84,430 | 73,132 |
| Amounts payable | (45,641) | (19,756) |
| | <u>218,789</u> | <u>233,376</u> |

The amounts receivable and payable are unsecured, interest free and have no specific repayment terms.

NOTES TO THE ACCOUNTS

12 SUBSIDIARY COMPANIES (Continued)

Particulars of the subsidiary companies are as follows:

| Name | Place of incorporation/ operation | Percentage of attributable equity interest | | Issued and paid up capital | Principal activities |
|---|--------------------------------------|--|------|--|---|
| | | 2003 | 2002 | | |
| Biogrowth Assets Limited * | British Virgin Islands/ Hong Kong | 100 | 100 | US\$1 | Investment holding |
| Cell Therapy Technologies Centre Limited | Hong Kong | 100 | 100 | HK\$200,000 | Cord blood bank and laboratory services |
| China Kent Development Limited | Hong Kong | 100 | 100 | HK\$2 ordinary HK\$10,000 non-voting deferred | Investment holding |
| Fullgain International Investment Limited | Hong Kong | 100 | 100 | HK\$2 | Investment holding |
| GITIC Properties Limited | Hong Kong/ Mainland China | 100 | 100 | HK\$10,000 | Property investment |
| INNOMAXX Investment Holdings Limited * | Hong Kong | 100 | 100 | HK\$2 | Investment holding |
| INNOMAXX Property (BVI) Limited * | British Virgin Islands/ Hong Kong | 100 | 100 | US\$2 | Investment holding |
| Longship Limited * | British Virgin Islands/ Hong Kong | 100 | 100 | US\$1 | Investment holding |
| Sinorich Technology Development Limited | Hong Kong | 100 | 100 | HK\$2 | Property leasing |
| United Profit Investments Limited * | British Virgin Islands/ Hong Kong | 100 | 100 | US\$1 | Investment holding |

* Subsidiary companies directly held by the Company

NOTES TO THE ACCOUNTS

13 ASSOCIATED COMPANIES

| | 2003 | 2002 |
|---------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Share of net assets | 36,420 | 37,471 |

Particulars of the associated company are as follow:

| Name | Place of incorporation/ operation | Percentage of attributable equity interest | | Principal Activities |
|--|--------------------------------------|--|------|--------------------------------------|
| | | 2003 | 2002 | |
| Happy Bright Holdings Limited | Hong Kong | 20 | 20 | Investment holding |
| Guangzhou Huakang Dikong Development Company Limited * | Mainland China | 17 | 17 | Property development and investments |

* Held by Happy Bright Holdings Limited

A summary of the consolidated financial information of Happy Bright Holdings Limited, which was acquired in December 2002, is set out as follows:

| | 2003 | 2002 |
|------------------------------------|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Results | | |
| Turnover | 13 | 11 |
| Loss after taxation | (5,257) | (18,820) |
| Minority interests | — | — |
| Loss for the year | (5,257) | (18,820) |
| Group's share of loss for the year | (1,051) | (195) |
| Net assets | | |
| Fixed assets | 796 | 917 |
| Properties under development | 652,680 | 675,564 |
| Debtors and prepayments | 10,005 | 20,000 |
| Bank balances | 417 | 1,501 |
| Creditors and accruals | (358,050) | (389,564) |
| Amount due to a shareholder | (20,915) | (20,898) |
| Short-term loans | (84,600) | (84,600) |
| Tax payable | (8,835) | (6,166) |
| Minority interests | (9,400) | (9,400) |
| | 182,098 | 187,354 |
| Group's share of net assets | 36,420 | 37,471 |

NOTES TO THE ACCOUNTS

14 LONG-TERM INVESTMENT

| | 2003 | 2002 |
|---|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Unlisted shares, at cost less provision | 20,000 | — |
| | <u>20,000</u> | <u>—</u> |

15 DEBTORS AND PREPAYMENTS

| | Group | | Company | |
|--------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Trade debtors | 34,898 | 33,309 | — | — |
| Other debtors | 40,527 | 66,751 | 39,962 | 66,572 |
| Deposits and prepayments | 2,937 | 1,725 | 1,759 | 275 |
| | <u>78,362</u> | <u>101,785</u> | <u>41,721</u> | <u>66,847</u> |

Trade debtors include an amount receivable from Guangdong International Building Enterprises Company Limited (“GIBE”), a former fellow subsidiary company, amounting to HK\$32,996,000 (2002: HK\$31,755,000). This receivable represents rental income from the investment properties of the Group at GITIC Plaza, Guangzhou collected by GIBE on behalf of the Group after netting off the property management fees payable. Since Guangdong International Trust & Investment Corporation (“GITIC”), the former ultimate holding company, commenced liquidation in October 1998, GIBE faced cash flows and other financial constraints and therefore withheld all payments to the Group. The liquidators of GITIC has agreed to apply part of the proceeds from the disposal of its interest in GIBE to repay the amount due to the Group. In October 2002, the interest in GIBE was sold under an auction at the consideration of RMB1,130 million. However, the sale has not yet been completed due to certain legal matters with the potential purchaser. In view of the circumstances explained above, the Directors are confident that the amount receivable will be fully recoverable and it is not meaningful to present an ageing analysis of the receivable from GIBE.

NOTES TO THE ACCOUNTS

15 DEBTORS AND PREPAYMENTS (Continued)

Rental income from tenants is due and payable in advance. The credit term granted to trade debtors in respect of processing and storage of cord blood is usually 30 days. The ageing analysis of the remaining trade debtors, prepared in accordance with the due dates, is as follows:

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---------------|--------------------------------|--------------------------------|
| Below 30 days | 1,086 | 1,003 |
| 30 to 60 days | 388 | 231 |
| 61 to 90 days | 185 | 106 |
| Over 90 days | 243 | 212 |
| | <u>1,902</u> | <u>1,552</u> |

16 TRADING INVESTMENTS

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---|--------------------------------|--------------------------------|
| Listed shares in Hong Kong, at market value | <u>184</u> | <u>170</u> |

17 CREDITORS AND ACCRUALS

| | Group | | Company | |
|------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
| Trade creditors | 195 | 433 | — | — |
| Other creditors | 6,290 | 5,317 | — | — |
| Accrued expenses | 5,036 | 7,352 | 1,464 | 3,619 |
| | <u>11,521</u> | <u>13,102</u> | <u>1,464</u> | <u>3,619</u> |

The ageing analysis of the trade creditors, prepared in accordance with the date of invoices, is as follows:

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---------------|--------------------------------|--------------------------------|
| Below 30 days | 189 | 431 |
| 30 to 60 days | 2 | — |
| Over 60 days | 4 | 2 |
| | <u>195</u> | <u>433</u> |

NOTES TO THE ACCOUNTS

18 ADVANCE FROM A DIRECTOR

The advance was unsecured, interest free and had no fixed repayment terms.

19 BANK OVERDRAFTS AND SHORT-TERM LOAN

| | Group | | Company | |
|----------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Short-term loan, secured | — | 20,000 | — | 20,000 |
| Bank overdrafts, unsecured | — | 34 | — | 34 |
| | <u>—</u> | <u>20,034</u> | <u>—</u> | <u>20,034</u> |
| | <u>—</u> | <u>20,034</u> | <u>—</u> | <u>20,034</u> |

The loan was secured by the Group's shareholding in GITIC Properties Limited, a wholly owned subsidiary company, and carried interest at a fixed rate of 30% per annum.

20 SHARE CAPITAL

| | 2003 | 2002 |
|--|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Authorised: | | |
| 4,000,000,000 shares of HK\$0.10 each | <u>400,000</u> | <u>400,000</u> |
| Issued and fully paid: | | |
| 2,104,512,853 shares (2002: 1,196,028,853 shares) of HK\$0.10 each | <u>210,451</u> | <u>119,603</u> |

On 5th February 2003, 5th August 2003 and 26th September 2003, the Company allotted and issued 239,200,000, 287,000,000 and 280,000,000 new shares of HK\$0.10 each, respectively, at the issue price of HK\$0.10 per share to provide additional working capital to the Group. All new shares rank pari passu with the existing shares.

NOTES TO THE ACCOUNTS

20 SHARE CAPITAL (Continued)

The Company operates a share option scheme under which options to subscribe for shares in the Company are granted to selected executives. At a Special General Meeting of the Company held on 26th June 2002, the shareholders passed resolutions relating to adoption of a new share option scheme (the “New Scheme”) and termination of the then existing scheme (the “Old Scheme”). Under the New Scheme, the Directors of the Company may, at their discretion, grant options to executives and key employees in the service of any member of the Group and other persons who may make a contribution to the Group subject to terms and conditions stipulated therein. The exercise price for any particular option shall be such price as the Board of Directors of the Company may in its absolute discretion determine at the time of grant of the relevant option subject to the compliance with the requirements for share option schemes under the Listing Rules. The maximum number of shares in respect of which options may be granted under the New Scheme may not exceed, in nominal amount, 10 per cent of the issued share capital of the Company from time to time, excluding for this purpose shares issued upon the exercise of any options granted under the New Scheme. All outstanding options granted under the Old Scheme remains valid and exercisable in accordance with their terms of issue. During the year, 85,150,000 options (2002: nil) were granted under the New Scheme and no options were lapsed under both the Old Scheme and the New Scheme.

Movements in the number of share options outstanding during the year are as follows:

| | 2003 | 2002 |
|------------------------------|-------------------|-------------------|
| At the beginning of the year | 44,900,000 | 44,900,000 |
| Granted | 85,150,000 | — |
| Exercised | (102,284,000) | — |
| | <hr/> | <hr/> |
| At the end of the year | <u>27,766,000</u> | <u>44,900,000</u> |

- (a) Share options were granted on 3rd January 2003 at the exercise price of HK\$0.10 per share and will expire on 2nd January 2008. Consideration received was HK\$1.00 for each share option holder in respect of share options granted during the year.

NOTES TO THE ACCOUNTS

20 SHARE CAPITAL (Continued)

(b) The details for the options exercised during the year are as follows:

| Date of exercise | Exercise price per share <i>HK\$</i> | Number of shares issued |
|---------------------|--|----------------------------|
| 7th August 2003 | 0.145 | 2,000,000 |
| | 0.100 | 43,360,000 |
| 8th August 2003 | 0.100 | 15,166,000 |
| 12th August 2003 | 0.100 | 730,000 |
| 27th August 2003 | 0.145 | 400,000 |
| 1st September 2003 | 0.100 | 2,000,000 |
| 3rd September 2003 | 0.100 | 2,966,000 |
| 4th September 2003 | 0.100 | 9,966,000 |
| 15th September 2003 | 0.145 | 12,000,000 |
| | 0.100 | 996,000 |
| 19th September 2003 | 0.145 | 12,000,000 |
| 23rd September 2003 | 0.145 | 700,000 |
| | | <u>102,284,000</u> |

(c) Share options, which are 100% vested, outstanding at the end of the year have the following terms:

| Expiry date | Exercise price <i>HK\$</i> | Number of options | |
|--------------------|-------------------------------|-------------------|-------------------|
| | | 2003 | 2002 |
| Directors | | | |
| 28th February 2005 | 0.145 | 17,500,000 | 43,500,000 |
| 2nd January 2008 | 0.100 | 9,966,000 | — |
| | | <u>27,466,000</u> | <u>43,500,000</u> |
| Other employees | | | |
| 28th February 2005 | 0.145 | 300,000 | 1,400,000 |
| | | <u>27,766,000</u> | <u>44,900,000</u> |

NOTES TO THE ACCOUNTS

21 RESERVES

| | Group | | Company | |
|---------------------|----------------|----------------|----------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Share premium | 177,165 | 175,946 | 177,165 | 175,946 |
| Contributed surplus | 152,150 | 152,150 | 234,944 | 234,944 |
| Accumulated loss | (209,341) | (174,051) | (300,638) | (255,329) |
| | <u>119,974</u> | <u>154,045</u> | <u>111,471</u> | <u>155,561</u> |

Contributed surplus represents the difference between the net assets value of subsidiary companies acquired and the nominal value of the shares issued by the Company pursuant to the group reorganisation in March 1997.

The loss attributable to shareholders for the year is dealt with in the accounts of the Company to the extent of HK\$45,309,000 (2002: HK\$49,147,000).

Under the Companies Act of Bermuda and the Bye-laws of the Company, the contributed surplus is available for distribution to shareholders. The Company has no distributable reserves as at 31st December 2003.

22 LONG-TERM LIABILITIES

| | Group | | Company | |
|----------------------------------|---------------|------------|---------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Bank loan, secured | 40,910 | — | — | — |
| Convertible bonds | 36,000 | — | 36,000 | — |
| Obligation under finance leases | | | | |
| wholly payable within five years | 687 | 995 | — | — |
| | <u>77,597</u> | <u>995</u> | <u>36,000</u> | <u>—</u> |
| Current portion included under | | | | |
| current liabilities | (4,321) | (309) | — | — |
| | <u>73,276</u> | <u>686</u> | <u>36,000</u> | <u>—</u> |

- (a) The bank loan is secured by the shares of a subsidiary company, the investment property and the receivables from GIBE (note 15), and is guaranteed by a Director, Tong Nai Kan, and the Company.

NOTES TO THE ACCOUNTS

22 LONG-TERM LIABILITIES (Continued)

- (b) On 9th December 2003, the Group issued convertible bonds of HK\$36 million at par. The bonds carry interest at 4% per annum, payable half yearly in arrears, and a right to convert into new shares of HK\$0.10 each in the issued share capital of the Company at a conversion price of HK\$0.10 per share, subject to adjustment, at any time from 9th March 2004 to 8th December 2005. The bonds, if not being converted, shall not become due nor repayable until 8th December 2005.
- (c) The finance lease obligations are payable in the following years:

| | Minimum payments | | Present value | |
|----------------------------|------------------|-----------------|-----------------|-----------------|
| | 2003 | 2002 | 2003 | 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year | 358 | 358 | 321 | 309 |
| In the second year | 388 | 358 | 366 | 322 |
| In the third to fifth year | — | 388 | — | 364 |
| | <u>746</u> | <u>1,104</u> | <u>687</u> | <u>995</u> |

23 DEFERRED TAX LIABILITIES

| | 2003 | 2002 |
|--------------------------|--------------|--------------|
| | <i>HK\$</i> | <i>HK\$</i> |
| At beginning of the year | 7,497 | 7,395 |
| Provided (note 8) | 785 | 102 |
| | <u>8,282</u> | <u>7,497</u> |

Deferred taxation liabilities have been provided for principally in relation to the investment properties and are payable after more than twelve months.

Deferred taxation assets of the Group and the Company amounting to HK\$105 million (2002: HK\$100 million) and HK\$16 million (2002: HK\$16 million), respectively, arising from unused tax losses, have not been recognised in the accounts. Unused tax losses have no expiry date.

NOTES TO THE ACCOUNTS

24 COMMITMENTS

(a) Operating lease commitments

The future aggregate minimum lease rental expense in respect of land and buildings under non-cancellable operating leases are payable in the following years:

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|------|-------------------------|-------------------------|
| 2003 | — | 3,047 |
| 2004 | 4,646 | 1,720 |
| 2005 | 2,687 | — |
| 2006 | 2,045 | — |
| 2007 | 1,108 | — |
| | <u>10,486</u> | <u>4,767</u> |

(b) Operating lease rental receivable

The future aggregate minimum lease rental income in respect of land and buildings under non-cancellable operating leases are receivable in the following years:

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---------------------|-------------------------|-------------------------|
| 2003 | — | 8,271 |
| 2004 | 8,364 | 7,239 |
| 2005 | 8,131 | 7,187 |
| 2006 | 6,594 | 6,514 |
| 2007 | 4,264 | 4,264 |
| 2008 | 4,063 | 4,063 |
| 2009 and afterwards | 50,588 | 50,588 |
| | <u>82,004</u> | <u>88,126</u> |

25 RETIREMENT BENEFITS

The Group operates a defined contribution mandatory provident fund scheme for all the eligible employees in Hong Kong. The assets of the scheme are held separate from the assets of the Group and contributions are calculated as a percentage of the basic salaries of the employees. Contributions to the scheme during the year are HK\$270,000 (2002: HK\$277,000).

NOTES TO THE ACCOUNTS

26 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating loss to net cash outflow from operating activities

| | 2003 | 2002 |
|---|-------------------|-------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Loss before taxation | (34,013) | (36,834) |
| Surplus on revaluation of investment properties | (15,400) | (112) |
| Dividend income | (1) | (3) |
| Interest income | (50) | (3) |
| Interest expense | 3,379 | 4,249 |
| Depreciation | 2,788 | 2,713 |
| Amortisation of goodwill | 2,914 | 2,914 |
| Share of losses of associated companies | 1,051 | 195 |
| Goodwill on acquisition of an associated company | — | 2,619 |
| Provision for long-term investment | 10,000 | — |
| Loss on disposal of property, plant and equipment | 180 | 11,427 |
| | <u> </u> | <u> </u> |
| Net cash outflow used in operating activities | <u>(29,152)</u> | <u>(12,835)</u> |

(b) Analysis of cash from financing activities

| | Share capital and premium | Loans and finance lease obligations | Total |
|--|--------------------------------------|--|-------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At 31st December 2001 | 253,069 | 11,237 | 264,306 |
| Issue of new shares | 42,480 | — | 42,480 |
| Inception of finance leases | — | 500 | 500 |
| Net cash inflows from financing activities | — | 9,258 | 9,258 |
| | <u> </u> | <u> </u> | <u> </u> |
| At 31st December 2002 | 295,549 | 20,995 | 316,544 |
| Issue of new shares | 80,620 | — | 80,620 |
| Exercise of share options | 11,447 | — | 11,447 |
| Net cash inflows from financing activities | — | 56,602 | 56,602 |
| | <u> </u> | <u> </u> | <u> </u> |
| At 31st December 2003 | <u>387,616</u> | <u>77,597</u> | <u>465,213</u> |

NOTES TO THE ACCOUNTS

27 RELATED PARTY TRANSACTIONS

The following is a summary of the significant related party transactions carried out in the normal course of the Group's business activities during the year:

| | Group | |
|-------------------------|-------------------|-------------------|
| | 2003 | 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Rental expense (note a) | 749 | 401 |
| Management fee (note b) | 613 | — |
| | <u> </u> | <u> </u> |

- (a) The Group rented the office premises from Universal Cyber Technology Holdings Limited, a wholly owned subsidiary company of U-Cyber Technology Holdings Limited, a substantial shareholder of the Company, at a consideration of HK\$80,298 per month from January 2003 to May 2003 and revised to HK\$58,000 per month from June 2003 onwards. The rental charge was arrived at with reference to open market rate of similar commercial properties in the same district.
- (b) U-Cyber Technology Holdings Limited provided administrative support services to the Group at a monthly fixed management fee of HK\$76,600 from January 2003 to August 2003. The management fee was negotiated on an arm's length basis.

28 SUBSEQUENT EVENT

On 5th March 2004, the Group entered into a conditional agreement to acquire 30% equity interest in Shanghai Worldbest Treeful Pharmaceuticals (Group) Company Limited ("SW Treeful"), incorporated in Mainland China, from China Worldbest Life Industries Company Limited, a subsidiary company of China Worldbest Group Company Limited, a substantial shareholder of the Company, at a consideration of RMB165 million (approximately HK\$156 million), subject to adjustment. The acquisition is conditional upon, among other things, the completion of legal and financial due diligence satisfactory to the Group and approval by the independent shareholders of the Company. The principal activity of SW Treeful and its subsidiary companies is manufacturing of pharmaceutical products in Mainland China.

29 APPROVAL OF THE ACCOUNTS

The accounts were approved by the Board of Directors on 7th April 2004.