

Report from the Chief Executive Officer

REVIEW

For the year under review, the Group reported a turnover of HK\$242,459,000 (2003: HK\$18,109,000), representing a remarkable increase of 12.4 times as compared with 2003. The substantial increase in turnover was mainly due to the commencement of trading business during the year 2004. The Group's loss attributable to shareholders for the year was HK\$86,215,000 (2003: HK\$35,290,000).

Umbilical Cord Blood Storage

The Group has devoted much of its efforts in increasing the public awareness of the benefits of umbilical cord blood storage during the recent years. During the year 2004, the enrolment of our umbilical cord blood storage services has reached a record high, representing a growth rate of 31%, and a turnover of HK\$11,724,000 (2003: HK\$9,287,000) was reported.

In the second half of 2004, the Group has successfully introduced its umbilical cord blood storage services into Macau and it is expected that the business in Macau will grow in a faster pace in 2005.

Investment

The Group has been holding an investment property, being Level 2, GITIC Plaza, 339 Huanshi Road East, Guangzhou, Guangdong Province, PRC (the "GITIC Plaza"), since 3 March 1997 under medium term lease in Mainland China. The value of GITIC Plaza was stated as approximately HK\$155,800,000 at a professional valuation made by Savills (Hong Kong) Limited, an independent valuer, on 31 December 2004 on an open market basis.

GITIC Plaza has generated a rental income of HK\$8,805,000 (2003: HK\$8,807,000) for the year ended 31 December 2004.

In addition, the Group has invested in some listed securities during the year, which has realised a profit of HK\$2,450,000 (2003: Nil) for the year ended 31 December 2004.

International Trade

The Group commenced trading business in the second half of 2004 which mainly involved in the sourcing and distribution of pharmaceutical ingredients and chemicals. A turnover of HK\$163,730,000 (2003: Nil) was reported for the year.

Report from the Chief Executive Officer (continued)**Shanghai Worldbest Treeful Pharmaceuticals (Group) Company Limited**

On 5 March 2004, Offspring Investments Limited ("Offspring"), a wholly-owned subsidiary of the Company, entered into a conditional agreement to acquire 30% equity interest in Shanghai Worldbest Treeful Pharmaceuticals (Group) Company Limited ("SW Treeful") from China Worldbest Life Industries Company Limited ("CWGC Life"), a subsidiary company of China Worldbest Group Company Limited, a substantial shareholder of the Company, at a consideration of RMB165,000,000 (approximately HK\$156,000,000), subject to adjustment (the "Agreement").

By 30 July 2004, all conditions in the Agreement were satisfied and the formalities in transferring the 30% equity interest in SW Treeful from CWGC Life to Offspring have been completed according to the terms of the Agreement. Pursuant to the Agreement, Offspring should within 3 months after the effective date of the Agreement, which was 30 July 2004, pay an aggregate sum of RMB165 million by 3 instalments to CWGC Life as consideration for the acquisition. CWGC Life has subsequently agreed to extend the payment period in respect of the second and third instalments to 31 March 2005.

As disclosed in the announcement of the Company made on 1 April 2005, since the Group had failed to raise sufficient fund to pay the second and third instalments on or before 31 March 2005, CWGC Life and Offspring had entered into a rescission agreement to rescind the Agreement on 1 April 2005 (the "Rescission Agreement"). Pursuant to the Rescission Agreement, Offspring shall sign the necessary documents to transfer the 30% equity interest in SW Treeful back to CWGC Life and within 10 working days after the completion of such transfer, CWGC Life shall return RMB49.5 million, being the first instalment previously paid to CWGC Life under the Agreement, to Offspring. The Rescission Agreement will be completed when the necessary statutory approvals and registration procedures in the PRC are properly obtained and completed.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2004, the Group had net current liabilities of HK\$12,581,000 (2003: Net current assets of HK\$166,993,000) and the current ratio was 0.92 (2003: 11.5). Current liabilities increased by HK\$147,121,000 or 927%, mainly due to the outstanding balance of the consideration for the acquisition of 30% equity interest in SW Treeful as at the year end date. Upon signing of the Rescission Agreement on 1 April 2005, the Group's payment obligation under the original Agreement has been released and the first instalment paid to CWGC Life, being RMB49.5 million (equivalent to approximately HK\$46,698,000) will be returned to the Group after completion of the transfer of shares back to CWGC Life. The current ratio will be improved thereafter.

As at 31 December 2004, the Group had bank balances and cash, pledged deposits and investments in securities amounted to HK\$85,605,000, of which all of them were denominated in Hong Kong dollars. The Group had total borrowings of HK\$37,276,000 (2003: HK\$41,597,000) which were all interest bearing loans. The gearing ratio, as a ratio of total borrowings to shareholders' fund was 13.3% (2003: 12.6%). As most of the Group's assets and liabilities are denominated in Hong Kong dollars, the Group does not expect significant exposure to foreign exchange fluctuation.

Report from the Chief Executive Officer (continued)

On 9 December 2003, the Group issued a convertible bond of HK\$36,000,000 at par. The bond carried 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 9 March 2004 to 8 December 2005. The bond was fully converted into 360,000,000 ordinary shares of the Company on 27 September 2004.

CHARGES ON ASSETS

At the balance sheet date, the Group had pledged the investment property, the receivable in amount of approximately HK\$31,725,000 (2003: HK\$33,506,000) from Guangdong International Building Enterprises Company Limited and certain unlisted securities for secured bank loan, which was denominated in Hong Kong dollars and carried interest rate at 2.65% above HIBRO, amounted to HK\$36,910,000 (2003: HK\$40,910,000). The Group had also pledged the deposits and investments in securities, amounted to HK\$24,189,000 (2003: HK\$1,414,000) to bank and financial institutions in securing the credit facilities granted to the Group.

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2004.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Save as disclosed above under the heading "Shanghai Worldbest Treeful Pharmaceuticals (Group) Company Limited", there were no material acquisitions or disposals of subsidiaries and associated companies during the year.

PROSPECTS

The Group's development in international trade has been outstanding during the year under review. The management believes that in the foreseeable future return from the trading business will be further improved. Both the international trade and our investment in GITIC Plaza would continue to provide a steady income stream for the Group.

We are chasing the highest standard in umbilical cord blood processing for our laboratory and are applying for AABB (American Association of Blood Banks) accreditation in the coming year.

The management anticipates that in 2005, there will be competition in the provision of umbilical cord blood storage service in the private sector. However the management has confidence that with our continuous improvement in technical know-how and dedication of our staff to provide high quality services, our umbilical cord blood storage service would continue to attain a considerable growth rate.

The Group will continue to review its business strategies, restructure its assets and strive for improvement in operation efficiency and earning capacity in the coming year. It is the Group's intention to continue pursuing investment opportunities that are of high potential and to maximize returns to our shareholders.

Report from the Chief Executive Officer (continued)

HUMAN RESOURCES

As at 31 December 2004, the Group had 35 and 6 employees in Hong Kong and the PRC respectively. Employees are remunerated at a competitive level and are rewarded according to their performance. Our Group's remuneration packages include medical scheme, group insurance, mandatory provident fund and performance bonus.

According to the share option scheme adopted by the Company on 26 June 2002, share options may be granted to Directors and employees of the Group to subscribe for shares in the Company in accordance with the terms and conditions stipulated therein.

APPRECIATION

On behalf of the Board, I would take this opportunity to express my appreciation to the continuous support of our shareholders and hard work and dedication of all our staff over the past year.

On behalf of the Board

Qi Xianchao

Executive Director and Chief Executive Officer

Hong Kong, 21 April 2005