

# REPORT FROM THE CHIEF EXECUTIVE OFFICER

## Review

For the year under review, the Group reported a consolidated turnover of HK\$190,838,000 (2004: HK\$242,459,000), representing a decrease of 21% as compared with last year. The Group's gross profit improved to HK\$24,124,000, representing an increase of 24% as compared with last year and the profit margin was 13% (2004: 8%). The Group's loss attributable to shareholders and loss per share for the year was HK\$55,200,000 (2004: HK\$86,215,000) and 2.24 HK cents (2004: 3.92 HK cents) respectively.

## Umbilical Cord Blood Storage

Notwithstanding the entrance of competitors in the umbilical cord blood storage service in Hong Kong during the year, the Group is still the market leader in Hong Kong to provide such service. During the year, income from the umbilical cord blood storage service amounted to HK\$15,634,000 (2004: HK\$11,724,000), with a significant increase of 33%.

## 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 HK\$124,800,000 (2004: HK\$155,800,000) at a professional valuation made by Malcolm & Associates Appraisal Limited, an independent valuer, on 31 December 2005. In the current year, the Group has, for the first time, applied HKAS 40 Investment Property and elected to use the fair value model to account for its investment property which requires decrease in fair value of investment property of HK\$31,000,000 to be charged directly in the income statement for the year.

GITIC Plaza has generated a steady rental income of HK\$8,684,000 (2004: HK\$8,805,000) for the Group for the year ended 31 December 2005.

The Group continued to invest in some listed securities during the year and has realized a profit of HK\$1,064,000 (2004: HK\$2,450,000) for the year ended 31 December 2005.

## International Trade

The Group has involved in the trading of pharmaceutical ingredients and chemicals during the year and a turnover of HK\$130,262,000 (2004: 163,730,000) was reported for the year. The change of management has affected the international trading business of the Group during the year, especially on the trading of pharmaceutical ingredients. The Group is restructuring its strategies on the trading business during the current year.

## Prospects

In the coming year, the Group will allocate more resources on the umbilical cord blood storage service so as to further improve the quality of our services. The Group has recently streamlined the operation of the umbilical cord blood storage service and redefined its marketing and services strategies with an expectation to make a major step forward in 2006.

Meanwhile, the Group will continue to focus on exploiting and pursuing any investment opportunities which can enhance the Group's performance and returns to shareholders.

## REPORT FROM THE CHIEF EXECUTIVE OFFICER (Continued)

### **Liquidity, Financial Resources, Charges on Assets and Capital Structure**

As at 31 December 2005, the Group had total assets and net assets amounted to HK\$297,041,000 (2004: HK\$484,225,000) and HK\$227,427,000 (2004: HK\$280,254,000) respectively. The current ratio was improved at 4.5, as compared to 0.9 as of last year end. The Group had bank balances and cash, pledged deposits and investment in securities amounted to HK\$99,536,000 (2004: HK\$85,605,000), of which all of them were denominated in Hong Kong dollars. The Group had total borrowings of HK\$33,027,000 (2004: HK\$37,276,000) which represented a decrease of 11% over that of last year end. The gearing ratio, as a ratio of total borrowings to shareholders' fund was 14.5% (2004: 13.3%). 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.

### **Material Acquisitions and Disposals of Subsidiaries and Associated Companies**

As disclosed in the announcement of the Company made on 1 April 2005, Offspring Investments Limited, a wholly-owned subsidiary of the Company, entered into a rescission agreement (the "Rescission Agreement") with China Worldbest Life Industries Company Limited to rescind the conditional agreement to acquire 30% equity interest in Shanghai Worldbest Treeful Pharmaceuticals (Group) Company Limited. The Rescission Agreement has been completed during the year.

There were no material acquisitions or disposals of subsidiaries during the year.

### **Human Resources**

As at 31 December 2005, the Group had 27 and 4 employees in Hong Kong and Mainland China 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, employees and other eligible participants 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

**Peter Luk**

*Deputy Chairman and Chief Executive Officer*

Hong Kong, 21 April 2006